

Administration of Arable Area Payments in the Netherlands, Sweden and England

A report by the Netherlands Court of Audit, the
Swedish National Audit Office (RRV 2000: 13)
and the United Kingdom National Audit Office





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The supreme audit institutions of the Netherlands, Sweden and the United Kingdom worked together in planning similar performance audits of the administration of the European Arable Area Payments Scheme in their respective countries. This report draws together the results from three separate examinations.

This collaborative work achieved its purpose of providing a basis for comparison of administration by the three countries of a scheme under the Common Agricultural Policy, where the underlying regulations are the same. It will provide a foundation on which to build for future collaboration.

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Contents

Summary	1
Preface	5
Introduction: Background to the Report	6
Part 1: The Facts	8
Part 2: Comparisons of Findings	13
Part 3: The Netherlands	28
Part 4: Sweden	36
Part 5: England	45
Appendix 1: The rules of the Scheme	58

Report Summary

1 This report draws on the results from three examinations of the Arable Area Payments Scheme carried out by the Netherlands Court of Audit, the Swedish National Audit Office, and the National Audit Office in England. The Scheme is the largest under the Common Agricultural Policy in the European Union. Expenditure on payments to farmers by member states under the scheme is reimbursed by the European Commission, subject to compliance with its regulations. The cost of administration by member states is not reimbursed.

2 The three national Supreme Audit Institutions (SAIs) carried out separate audits but discussed the areas and methods of examination in order to provide the scope for some comparison after their respective reports were published. The timing, detailed content and reporting for each audit was carried out in accordance with their national priorities and requirements. The audits did not examine the effectiveness of the Scheme in meeting its objectives which are determined by the European Union under the Common Agricultural Policy. This has been the subject of reports by the European Court of Auditors and the Swedish SAI has examined the effects of the scheme in Sweden.

3 The United Kingdom was the third largest recipient in Europe of aid under the Scheme after France and Germany. The average size of farms was twice that of any other member state. England accounted for 83 per cent of expenditure on the Scheme in the United Kingdom in 1997-98. Expenditure on the Scheme in England (ECU 1582 million) was over three times that in Sweden (ECU 418 million) and over 12 times that in the Netherlands (ECU 128 million).

4 The work by the three SAIs identified the costs of administration of the scheme to be some ECU 8.7 million in the Netherlands; some ECU 11.9 million (1996) in Sweden and some ECU 17.9 million in England. As a percentage of total payments to farmers in each country, this amounted to 6.8 per cent; 2.7 per cent and 1 per cent respectively. However the fact that rates of payment per hectare were significantly lower in Sweden than in the other two countries meant that these figures were not comparable as an indicator of the relative cost of administration of the scheme in the three countries.

5 The three SAIs in their national reports focussed on the efficiency of administration of the scheme which in all three countries is carried out in part by a number of regional units. This led to comparisons within each country of the average time spent processing a claim at regional units as a measure of efficiency.

6 In all three countries, limitations in the data available for costs or staff time meant that the SAIs had to seek estimates or make their own calculations in order to compare regional performance. Some of the national findings were:

- In the Netherlands, the Court of Audit recommended that consideration be given to better quantitative and qualitative explanations for differences in the way in which each region spent time processing claims. This needed to draw a distinction between external (eg nature of claims) and internal (eg management) factors. In addition, attention needed to be paid to the uniformity of statistics and the collection of cost data.
- In Sweden, there were relatively large variations between counties in the time required to process claims. That time could be two to three times longer in one county than in another. The total cost of administration could be reduced by at least ECU 1.5 million if all county boards could reduce costs to a maximum cost per claim which was met by 11 of the 24 counties. Greater co-operation between offices would allow them to improve the use of resources.
- In England, the complexity and administrative demands of the Scheme had increased each year. However, if the 5 regions taking the longest time were able to match the time of the 4 others, this could save about ECU 2.4 million a year. The National Audit Office recommended that examination should be made of reasons for variations between regional offices; since size, number and complexity of claims, for example, did not appear to explain all differences between regional offices. Better information on the costs and amounts saved by checking, for example, might also enhance management and monitoring of performance. The Ministry proposed to explore these issues, although in England the cost of administration of this very high value scheme represented only one per cent of the value of payments to farmers.

7 Comparisons of the national data show some differences between the countries:

- There were 5 regional units in the Netherlands, 9 in England and 21 (24 in 1996) in Sweden. In Sweden, 18 of their units (county boards) in 1996 were responsible for processing fewer than 3,000 claims, whereas none of the units in the Netherlands and only 1 in England processed less than that number.

- The number of claims in each country only ranged from 47,000 in England, 52,000 in the Netherlands, to 58,000 in Sweden. However, 95% of the claims in the Netherlands (52% and 36% respectively in Sweden and England) were for the simplified scheme which relates to claims below a certain amount of land and which are less complex to check and take less time to check than the higher value main scheme claims.
- The average value of claims in each country reflected variations in the size of farms and the payment rates per hectare. For example, in 1997 the average value of main scheme claims in England was nearly 51,000 ECU compared with nearly 13,000 ECU in Sweden and 11,000 ECU in the Netherlands.

8 Comparisons of the estimated average processing time per claim for periods examined by the SAIs showed variations from 2.2 hours in the Netherlands to 3.7 hours in Sweden and 12.7 hours in England. As indicated above, the Netherlands had significantly more simplified scheme claims. In Sweden, those counties which processed relatively small numbers of claims spent more time per claim. This was due to the basic requirement for activities such as management, training, acquisition of technology, regardless of the number of claims. The very significant differences between Sweden and England in time spent may be explained by a variety of causes. The audit offices assessed the most significant cause to be the practice in England of checking back through each of the years since the scheme was introduced in England in 1993; and the significantly higher number of fields or field parcels covered by claims in England which might have on average 50 to 100 per cent more field parcels per claim than in Sweden. This partly reflected the fact that farms in England are on average much larger than elsewhere.

9 All three reports generally confirmed that checks on claims and application of penalties were being carried out in accordance with European requirements. Farmers appeared to be satisfied with the information published by national and regional administrators. However, the application forms were complex, reflecting the nature of the Scheme, and unintentional errors appeared significant.

10 The scheme is the same for each country, and the administrative arrangements are very broadly similar. There were differences in the number and size of regional offices and in the numbers of main or simplified scheme claims; and there were limitations in the availability of management information on costs and time spent in administration. However, comparisons reinforced the findings from the national reports on matters such as the need for better information to be

collected by national administrations for the purposes of performance measurement. In addition the collaboration involved in discussing audit plans and methodologies was useful to the three SAIs.

11 This exercise represents a step forward by audit offices in examining together the work of different national administrations in the implementation of a Common Agricultural Policy Scheme. It has helped to explain the factors underlying the administrative cost and effort involved in checking farmers' claims and the rigour with which Scheme controls are implemented. It will therefore be of benefit in the continuing drive to improve the efficiency with which Common Agricultural Policy Schemes are administered.

Preface

1 In 1997 the Supreme Audit Institutions (SAIs) of the Netherlands (Algemene Rekenkamer), Sweden (Riksrevisionsverket) and the United Kingdom (National Audit Office) decided to carry out performance audits of an agricultural scheme funded by the European Union and operating in each of the three countries. The Arable Area Payments Scheme was chosen. The separate examinations by the three SAIs included several similar issues arising from the Scheme, such as the cost and efficiency of administration and the effectiveness of checks carried out on farmers' claims for subsidy.

2 The results are contained in three published reports:

- *Quality of the implementation of the European Arable Area Payments Scheme in the Netherlands (Algemene Rekenkamer: October 1998);*
- *Arable Area Payments Administration and Regulations (Riksrevisionsverket: November 1997);*
- *Arable Area Payments Scheme (National Audit Office: February 1999).*

3 The results of these national reports have been used to prepare this report:

- The Introduction explains the background to the report.
- Part 1 draws a comparison between the three countries on the basic facts about the scheme.
- Part 2 compares findings in the three national reports.
- Parts 3-5 summarise the national reports.

Introduction

Why?

1 In May 1996, at the invitation of the Swedish National Audit Office, a small group of representatives from several Supreme Audit Institutions (SAIs) in the European Union (Danish, Dutch, French, Italian, Swedish, United Kingdom and the European Court of Auditors) met in Stockholm. The purpose was to meet colleagues involved in the performance auditing of the Common Agricultural Policy, share experiences, and explore the possibilities for future collaboration in areas of mutual interest.

2 The Common Agricultural Policy (CAP) appeared to offer scope for performance auditors to benefit from such contacts. The rules and regulations of the CAP schemes would be the same for each country, as they were determined by the European Union, but the administration of the CAP schemes and their implementation were the responsibility of the respective agricultural ministries of each country. The national governments determine the amount of administration resource put into the schemes. The methods for auditing and similarities or differences in administration might therefore produce interesting comparisons where the underlying Scheme is the same.

3 At the Stockholm meeting the representatives from the SAIs of the Netherlands (Algemene Rekenkamer), Sweden (Riksrevisionsverket) and the United Kingdom (National Audit Office) agreed that audits of the Arable Area Payments Scheme in their respective countries might be co-ordinated: there were similarities in the audit methods they used, their ideas for future national studies of the Scheme contained some common elements and their offices were interested in pursuing opportunities for joint working.

What?

4 The three national SAIs chose the administration of the Arable Area Payments Scheme (AAPs) as the subject of similar performance audits. The Scheme is the largest in the European Union in terms of expenditure and is the largest agricultural support scheme in each of the three countries. The Scheme might be expected to incur a significant amount of administrative resource.

5 The scope of each performance audit was restricted to the efficiency of administration of the Scheme. The SAIs decided to compare findings on topics such as the cost of administration, administrative efficiency, application of checks on claims, and perhaps farmers' views on the administration of the Scheme. In the United Kingdom, the audit examined the administration of the Scheme in England only, which accounted for over 80 per cent of the expenditure in the UK. The audits did not examine whether the objectives of the Scheme were met or question the effectiveness of European Union policy in this area. The Swedish SAI has since examined the effects of the arable area scheme in Sweden. Three reports on this and an evaluation of CAP objectives, including a summary of the results of their work, were published in January to April 1999 by the Swedish SAI.

How?

6 The exercise was not straightforward. Each audit office has different priorities, arrangements or national requirements for the timing and conduct of examinations and reporting results. The three SAIs therefore adopted a pragmatic approach and they decided to do 'parallel' audits. This meant that the audit offices were able to draw up a working plan and outline the areas for examination but were able to carry out the work at a time appropriate for each of them. Each SAI also adopted its own detailed methods and audit approach; and focused on different areas, due to their existing knowledge of particular arrangements or problems in national administration. The three SAIs published their national reports in line with their respective reporting structures. The reports were published over a period of 16 months: Sweden in late 1997; the Netherlands in 1998; and the United Kingdom in early 1999.

7 Thereafter, the three SAIs compared the results from their work. The Swedish and Netherlands SAIs provided English versions of their reports to facilitate this comparison. The Netherlands SAI took the initiative in producing an outline structure for the report, and co-ordinating initial drafting by all three countries. The UK SAI co-ordinated the final stages of drafting this report.

Part 1: The Arable Area Payments Scheme in the three countries

Common Agricultural Policy

1.1 The Common Agricultural Policy (CAP) was established under the Treaty of Rome (1957). Its objectives are to increase agricultural productivity, to establish a fair standard of living for agricultural producers, to stabilise agricultural markets, and to secure regular supplies to consumers at reasonable prices.

1.2 In the case of cereal production, the main instruments which were initially applied to fulfil the objectives of the CAP were protection against cheap imports and regulation of the market through intervention purchases and export subsidies.

1.3 In the early 1990s, public and political concerns about the level of expenditure on the CAP and the food surpluses it had generated, together with international pressure from the negotiations resulting from the 1991 world trade agreement, led to reform of the CAP. The reforms were agreed by the European Union in May 1992.

Arable Area Payments Scheme

1.4 In the cereals sector the Arable Area Payments Scheme was introduced to compensate farmers for the reduction in intervention prices and to sustain the same level of income as before the 1992 reforms. Specifically the Scheme was designed to:

- Lower cereal prices, reduce export subsidies and intervention levels;
- Compensate farmers directly for these lower prices by introducing payments based on the area of land on which arable crops were grown;
- Control the production of cereal crops by requiring farmers to set aside a proportion of their land so as to keep it out of production, with compensation for doing so.

1.5 The European Union determines Scheme regulations and sets payment rates. Farmers are compensated by payments per hectare of arable land planted with an eligible crop (cereals, oilseeds, protein crops and linseed) and payment rates are based on the historic average yields on a regional basis. Payment rates therefore vary between countries and regions (Table 1.1).

Table 1.1: Arable Area Payments by member state and production region in 1997. Minimum and maximum rates per hectare

Country	Cereal Max		Cereal Min		Linseed Max		Linseed Min		Set-aside Max	
	ECU	National currency	ECU	National currency	ECU	National currency	ECU	National currency	ECU	National currency
Netherlands	380	847	268	596	736	1639	518	1154	482	1073
Sweden	305	2663	190	1657	590	5151	367	3206	386	3373
England	385.79	257.23	385.79	257.23	746.20	497.53	746.20	497.53	488.68	325.83

1.6 Producers are able to make their claims in one of two ways either through the 'main scheme' or the 'simplified scheme'. Large producers claim under the main scheme. Under this scheme there is no upper limit to the amount of land that can be claimed by individual farmers and payments are made at different rates for different crop types. The main scheme rules require farmers to set aside a percentage of their land each year, for which they receive compensation. Small producers claim under the simplified scheme. They are paid at the lowest rate, that for cereals, regardless of the crop type grown, but they are not required to set aside land. In each country there is a maximum area of land for which farmers can claim under the simplified scheme.

Administration of the Scheme, value and numbers of claims

1.7 Each of the member states of the European Union administers the scheme through their own ministries of agriculture and national paying agencies. Most of these paying agencies have regional offices¹. The regional offices process and check claims submitted by farmers.

¹ In Sweden, the National Board for Agriculture is the paying agency, but regional administration of the scheme is carried out by local County Boards. They are only subordinate to government and not to the paying agency. The National Board (SJV) issues administrative instructions but have no responsibilities for the resources necessary for the administrative process.

1.8 Farmers submit annual applications for their subsidy under a system which the European Union require member states to operate, called the Integrated Administration and Control System (IACS). The system applies to arable and livestock schemes and was also introduced as part of Common Agricultural Policy reform measures in 1992. The purpose of the IACS is to strengthen controls over payments to farmers and to combat fraud through the introduction of a common system of administrative penalties. The IACS requires a computerised database to be maintained in each member state. Within the database every parcel of land in that country is uniquely identified to ensure no parcel is claimed for more than once.

1.9 Reimbursement by the European Union of expenditure under CAP schemes by member states is conditional upon the national paying agencies applying appropriate checks and controls; meeting payment deadlines, and performing on-the-spot checks of at least five per cent of claims every year.

1.10 The European Commission carries out checks to ensure the regulations are being met in each member state. If the national paying agency does not satisfy the European Commission on its compliance with the scheme requirements, expenditure may be disallowed and the money previously advanced is recovered from the member state concerned. The costs of administering the Arable Area Payments Scheme are financed by each member state and are not reimbursed.

1.11 In 1996 the total value of Arable Area Scheme payments in all member states was 14,700 million ECU². France and Germany were the highest recipients of aid on this Scheme, with the United Kingdom the third highest, and Sweden the seventh highest. The Netherlands was one of the lowest (Table 2).

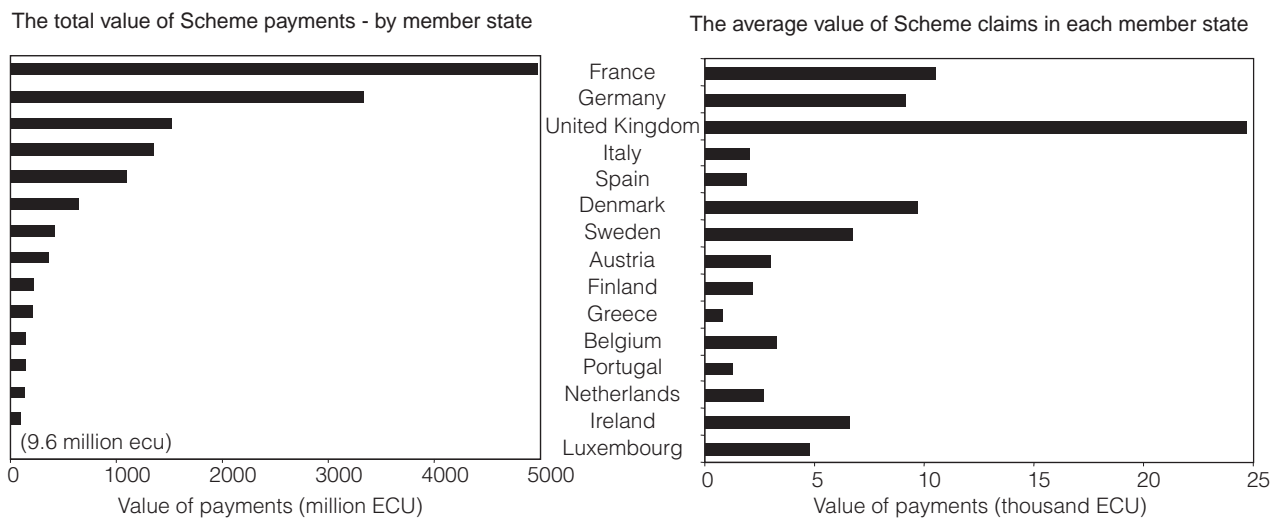
1.12 The average value of claims made by farmers in each country reflects variations in the size of farms and in the payment rates per hectare being calculated on the basis of historic average yields in the relevant country or area (paragraph 1.5). The average value of scheme claims in the United Kingdom is the highest in the European Union, being double that of the next highest, France (Table

2 Throughout the report the following exchange rates have been used to convert national currencies into ECU. These are the rates published in the annual reports of the European Court of Audit.

1 ECU = national currency	British Pound	Swedish Crown	Dutch Gilder
1996	0.737273	8.62800	2.18472
1997	0.666755	8.73234	2.22742

1.2). This reflects significant differences in the pattern of agricultural holdings, with the average size of farms in the United Kingdom being almost twice as large as those in any other member state.

Table 1.2: Arable Area Payments Scheme expenditure in 1996 - by member state



Source: National Audit Office Report Arable Area Payments Scheme

1.13 The total number of claims in the three countries covered by this report ranged from 47,000 in England to 52,000 in the Netherlands and 58,000 in Sweden. However, there were significant variances in the numbers of main and simplified scheme claims within those totals (Table 1.3). In England only 36 per cent of claims, but in the Netherlands 95 per cent of claims, were for the simplified scheme. There is an almost equal mix of simplified and main scheme claimants in Sweden. The position in England reflects the size of farms in the United Kingdom referred to earlier.

Numbers of Claims by Farmers

Table 1.3

Number of claims in 1997	Netherlands	%	Sweden	%	England ⁽¹⁾	%
Main Scheme	2,826	5	27,750	48	29,800	64
Simplified Scheme	49,235	95	30,525	52	17,000	36
Total	52,061	100	58,275	100	46,800	100

Note (1): The National Audit Office report examined administration of the scheme in England only.

Table 1.4: Value of Payments

Value of Payments in ECU million in 1997	The Netherlands (Estimated)			Sweden			England		
	million ECU	million Nlg	%	million ECU	million SEK	%	million ECU	million £	%
Main Scheme	32	71.6	25	356.47	3113	85	1517.8	1012	95
Simplified Scheme	96	214.7	75	61.84	540	15	64.5	43	4
Total	128	286.3	100	418.31	3653	100	1582.3	1055	100

1.14 The average value of claims was much smaller in the Netherlands, where so many farmers are eligible under the simplified scheme, compared to England and Sweden (Tables 1.3 and 1.4). Agricultural parcels claimed for are relatively small in the Netherlands, except on reclaimed land in the polders.

1.15 In Sweden, although its claims were on average the fifth largest in the European Union, their average value was less than one third of those in the United Kingdom. There are wide regional differences in Sweden between the southern districts where there are large fields and the northern and central parts of the country where small fields in the woodlands predominate. In addition, as indicated in Table 1.1, the payment rate per hectare is lower than in England.

Part 2 - Findings in three countries compared

2.1 This Part brings together the main findings of the three audit offices: the Netherlands Court of Audit (Algemene Rekenkamer), the Swedish National Audit Office (Riksrevisionsverket) and the United Kingdom National Audit Office. Several common themes were examined: the organisational arrangements; the cost and efficiency of administration; checks on claims including field inspections and remote sensing; deductions and penalties imposed on farmers; information technology; and in two countries, farmers' views on the Scheme.

Organisational arrangements

2.2 In general terms, each country has a centrally located body with overall responsibility for policy issues, national regulations and overall management of the Scheme; and a number of offices located regionally with responsibility for the day to day operation of the Scheme. However, differences between countries arise largely because of the nature of the central and local organisations involved:

- In the Netherlands, the Ministry of Agriculture, Nature Management and Fisheries is responsible for implementing the Scheme. The Ministry has entrusted this to the National Service for Aid Schemes (LASER). This Service comprises a central unit in The Hague and 5 regional units which carry out the main processing functions. Field inspections on farms are carried out by the General Inspectorate (AID) under the responsibility of LASER .
- In Sweden, the Swedish National Board of Agriculture (SJV) and 21 (24 in 1996) county administrative boards are responsible for the administration of the Scheme. The SJV, based in Jonkoping, ensures that European Union regulations are enforced equally in Sweden and is also the paying agency for agricultural support. The SJV also provides training and computer support to county boards and provides information and claim forms to farmers. The county administrative boards process the claims, perform physical checks including inspections, and rule upon claims. Decisions taken by the county administrative boards may be appealed to the SJV, whose decisions are final.

- In the UK, the Ministry of Agriculture, Fisheries and Food (MAFF) administers the Scheme in England. Central divisions of the Ministry, based in London, are responsible for the formulation of national regulations and guidance while 9 MAFF regional offices carry out the processing of claims for England. One of the regional offices, Cambridge, is tasked with additional responsibilities such as co-ordination of management information on the arable area scheme, clerical guidance and instructions issued to other regions, and some general management issues.

Conclusions on organisational arrangements

2.3 As might be expected, the organisational arrangements for the administration of the scheme reflect the structure of central and local government in each country. There is some similarity in that there is a central body with policy responsibility, and local or regional bodies who carry out processing of claims. However, the number of such regional bodies varied from 5 in the Netherlands, 9 in England and 24 (21 in 1999) in Sweden.

Costs and Efficiency of Administration

2.4 The costs of administration are borne by each member state. The running costs of implementing the arable area scheme, including the administrative efficiency reflected in the amount of time taken to process a claim, were examined in each country. The key findings from the Audit Offices' analysis and estimates are shown in Table 2.1 opposite.

2.5 Clearly there were wide variations in the estimated costs and apparent efficiency of running the Scheme. The variations in processing time within each country and in processing time and costs between the three countries are considered further below.

Processing times: Variations within countries

2.6 In the Netherlands, the time taken to process a claim varied between 2 and 2.4 hours. LASER carried out an evaluation of the time spent on applications by the five regional offices in 1997. The evaluation considered that the differences in processing times between regions were due to factors such as different working methods (Southwest); higher levels of applications under the general scheme - which is more complicated (North); and experienced staff had to be diverted to combat swine fever (Southeast).

Key findings on estimated costs and efficiency of administration

Table 2.1

	Netherlands (1997)	Sweden (1996)	England (1997-98)
Number of claims	52,000	59,600	46,800
Average number of claims per regional office	10,400	2,480	5,210
Cost of administration	Nlg 19,480,000 ⁽¹⁾ Ecu 8,745,000	SEK 103,000,000 Ecu 11,939,000	£11,940,000 ⁽¹⁾ Ecu 17,900,000
Cost per application	Nlg 374 ⁽¹⁾ Ecu 168	SEK 1,727 ⁽¹⁾ Ecu 200	£254 ⁽¹⁾ Ecu 381
Cost of administration as a % of total payments to farmers	6.8 %	2.7 %	1 %
Estimated average time to process a claim (hours) ⁽¹⁾	2.2	3.7	12.7
Estimated range of processing times between regions (hours) ⁽¹⁾	2.0-2.4	2.0-6.9	9.0-18.0

Note (1): Estimates made by audit offices

2.7 The Netherlands Court of Audit report indicated possible explanations for the differences including: the numbers of applications which had to be re-entered on to the computer system (highest in the North); relatively highly trained staff (Northwest); many temporary staff (Southwest); and differences in the numbers of large applications. The audit findings showed that the greater routine resulting from processing a high volume of claim applications did not lead to any demonstrable advantage for the volume of claims in regional offices in the Netherlands (ranging from 4,800 to 16,500), neither did the average value of applications make much difference.

2.8 In Sweden, where times varied between 2.0 and 6.9 hours, the audit report found that the agricultural structure of each county, the geographical size of each county, or the average number of field parcels per farm made little difference to the processing time per claim. However, the following factors were important:

- Counties which did not have a minimum critical mass of claims (about 1,500 to 1,600) spent more time per claim. This was assessed as being due to the requirement for a minimum of some 2,000 to 3,000 hours for management, staff training, and acquisition of technology and computer competence as well as the provision of information to farmers.

- The estimated time spent by counties which did not have time recording systems was higher than those which did have such systems.
- A small part of the variation is explained by certain counties experiencing greater problems with access to computer services than others, arising from computer development difficulties in the SJV.

2.9 Processing times per claim in England varied between 9 and 18 hours in 1996-97. As in the Netherlands, the audit found that for claim volumes at regional offices in England (which ranged from 2,400 to 9,700) the variations in average processing times per claim at regional offices did not appear to be explained by the differences in the volume of claims at each office. There were significant differences in the numbers of claims of differing complexity received by regional offices, but these too did not appear to account for all variations in processing time. Similarly, variations in error rates in farmers' claims did not generally correlate with processing times. However, the regional offices with the highest and lowest percentage of farmer errors were the offices with, respectively, the highest and lowest average processing time per claim.

2.10 In England the competence and experience of staff impact directly on regional offices' ability to process claims expeditiously. Some regional offices experienced difficulty in recruiting and keeping staff for processing work. The problems of staffing and training are significant factors in regional efficiency generally and may account for some variations. There was, however, insufficient data to indicate that the organisation and staffing of processing sections were the causes of differences in regional performance.

Cost and processing time comparisons between countries

2.11 All three audit offices were concerned about the total costs of administering the Scheme. In England, for example, the cost of processing claims had risen from £9 million in 1993-94 to £12 million (Ecu 18 million) in 1997-98. It was recognised that the complexity and administrative demands of the Scheme had increased each year since it was introduced and that claims were often difficult and time consuming to process. In the Netherlands the Court of Audit recommended that attention be paid to the uniformity of statistics and the collection of more data on administration costs. It was important to clarify the cost of implementing European regulations in the national budget. In all three countries, limitations in the data available for actual costs or staff time spent on administration, meant that the audit offices had to seek estimates or make their own calculations in order to compare regional performance.

2.12 The estimated cost of administration per claim in England (Ecu 381), was more than twice as much as in the Netherlands (Ecu 168) and nearly twice as much as Sweden (Ecu 200). In England, however, the cost of administration as a percentage of total amounts paid to farmers - 1% - was considerably lower than the other two countries (6.8% in the Netherlands and 2.7% in Sweden). Table 2.1 also shows large differences between the three countries in the average time taken to process claims, especially between the Netherlands and Sweden (2.2 and 3.7 hours, respectively) on the one hand, and England (12.7 hours) on the other.

2.13 The types of claims submitted by farmers is an obvious factor to be considered when comparing countries. The proportions of simplified/ main scheme claims and oilseed claims make a difference. There is a maximum limit on the area of land which a farmer can claim under the simplified scheme. Simplified scheme claims, for example, are also quicker to process for three reasons: there are fewer details on the claim form to input on to the computer system; there is no requirement for a percentage of land to be set-aside; and payment is made at a single rate regardless of crop types (paragraph 1.6). Comparing figures of the three countries indicated that England had the highest proportion of main scheme claims and the Netherlands the lowest proportion. From the comparison of the proportions of main and simplified scheme claims and processing time in each country, the Swedish Audit Office assess that this factor may explain a small part - possibly one to one and a half hours - of the difference between England and Sweden if all other factors were equal. At the same time they consider this factor may be the main cause of the difference in the estimated average processing time between Sweden and the Netherlands.

2.14 When the differences between countries in processing times became apparent in comparing the national reports, the audit offices of Sweden and the UK assessed the possible reasons for such wide variations between processing times. Their understanding of the respective procedures in the three countries allowed them to suggest that the following factors, presented in the likely order of significance, starting with the most important, might apply:

- **Differences in administrative procedures.** In England, the validation process involves establishing the eligibility of each field through every previous scheme year - a lengthy and time consuming process. The National Audit Office in England examined processing times for 1996-97 which would have reflected checks back to 1993. In Sweden, on the other hand, the Scheme was first introduced in 1995 and therefore far fewer checks than in England were carried out when the Swedish Audit Office examined the processing costs for 1996. Sweden does not expect to do the level of checking

carried out in England. The extent of checking in England had been exacerbated by difficulties in using the computer system to link field parcels to previous years, and staff were sometimes obliged to take out all these links and re-insert them several times before the claim was validated by the computer system. Each claim in 1996 had to be re-submitted for validation approximately 3.5 times on average. These difficulties had caused interruptions to the processing of individual claims in 1996 as staff had had to wait at least a day before they could investigate claims.

- **Differences in number of field parcels.** Comparative findings suggest that individual applications for the scheme in England contained more fields or field parcels than in Sweden. This partly reflects the fact that farms in England are on average much larger than in other member states. The average number of field parcels per claim registered under the Integrated Administration and Control System was about 28 in England compared with about 18 Sweden. (The figures for the Netherlands were not available in the national report. Those for England were calculated by the National Audit Office). The Audit Office's review in England of a sample of field inspections indicated that at least 27 and as many as 54 parcels per claim may be involved. This analysis suggests that arable area claims in England might have on average 50 to 100 per cent more field parcels per claim than in Sweden. This was likely to have a significant impact on processing time, as application forms contain a line of data for each field parcel. Each line is subject to the full range of regulatory checks carried out under IACS and Arable Area Payments regulations, and in England might have required checking back to several previous years as referred to above. In Sweden, the differences between Offices in the average number of parcels per claim had no conclusive effect when comparing average processing times. This does not alter the possible effect of differences in the numbers of parcels per claim when comparing Sweden and England, where the number of parcels is so significantly higher in England, and where average processing times are also affected by the links and checks made to previous years.

2.15 These two factors might well be the major cause of the estimated difference of 9 hours in the national average processing time for claims in England and Sweden. Minor differences may also be due to the following factors:

- **The type of claims submitted by farmers.** (see paragraph 2.13)

- **Differences in management and staffing.** Management, staffing and training were not examined in detail by the audit offices. In Sweden, however, planning the flexible use of temporary staff trained specifically for tasks such as IACS registration or field checks, could bring down processing time per claim when used to supplement trained permanent staff. In England several regional offices experienced considerable difficulty in attracting and retaining suitable staff. The impact of the need to employ temporary staff at peak periods was hard to quantify in the circumstances that applied in England but may have been one of the factors that led to the increased time and cost of processing claims.
- **The methods for recording time and cost.** The comparisons indicate that only a small proportion of the difference between Sweden and England was due to differences in how staff time or staff costs were recorded. The Swedish Audit Office assess that less than an hour of the difference in average processing time per claim could be due to this factor.
- **Variations in claim volumes.** There was little indication in England, or the Netherlands, of a reduced processing time as claim volumes increased. In Sweden, however, where there are many more regional offices processing fewer claims, volumes did make a difference. Two-thirds of the Swedish offices handled claim volumes that were smaller than the smallest office in England or the Netherlands (Table 2.2).

Numbers of claims dealt with by regional offices in the three countries

Table 2.2

	Number of regional offices		
	Netherlands (1997)	Sweden (1996)	England (1997)
Number of claims dealt with			
0-999	0	3	0
1000-1999	0	7	0
2000-2999	0	8	1
3000-4999	1	4	4
5000-7999	1	2	3
>8000	3	0	1

Conclusions on costs and efficiency of administration

2.16 The audit offices in each country were concerned about the levels of cost and efficiency of administration. The costs are not reimbursed by the European Union and have to be borne by member states. There were differences between the three countries, in the estimated administration costs; numbers of regional offices;

and efficiency particularly as reflected in average processing times per claim. Clearly there may be scope for improving efficiency if the reasons were due to poor administrative practices:

- In the Netherlands, the audit found important differences between regional offices and recommended that further investigation should be carried out into the reasons for the differences - both external and internal. Attention needed to be paid to the uniformity of statistics and the collection of data on implementation costs.
- In Sweden the auditors were concerned about the wide variation in processing times between county boards. They considered that administrative costs for county boards from the scheme could be reduced by at least SEK 13 million [Ecu 1.5 million] annually if all county boards were able to administer applications for a maximum cost of SEK 1,200 [Ecu 139] per claim. In 1996 costs for eleven counties were less than that amount and it was the opinion of the RRV that other counties should be able to administer the scheme for no more than the maximum cost per claim cited.
- In England the audit office was also concerned about the wide variations in processing times between regional offices. The auditors calculated that if the average processing time of 12.7 hours per claim could be reduced by five per cent, this could produce savings of some £400,000 (Ecu 600,000). Or if the regions taking the longest time were able to match the time of the 4 others, this could save about £1.6 million (ECU 2.4 million) per year.

Checks on claims, including field inspections and remote sensing

2.17 Member states carry out in-office checks and field inspections which can involve on the spot checks by inspectors and remote sensing using satellite imagery. Each country's audit report found that controls were in place to address the main risks of irregular claims, and that administrative staff carried out the appropriate checks to satisfy European Union rules.

On the spot field inspections

2.18 All countries carry out physical - on the spot field inspections - the number amounting to at least 5 per cent of claims (or 3 per cent if remote sensing is used) as required by European Union regulations. There are several characteristics of on

the spot inspection where comparisons could be drawn between the three countries, for example the methods used to measure fields and the length of time taken to carry out an inspection.

2.19 There were differences in the methods used to measure the fields. In England inspectors worked alone and mainly used a measuring wheel. In Sweden and the Netherlands, however, inspectors worked either in pairs to use the 'total station laser method', or alone, using Global Positioning System (GPS) satellite technology. The total station method involves time consuming measurement with instruments. Parcels of land are measured on a line of points along irregular field borders and physical features.

2.20 The audits found that the length of time taken to carry out on the spot inspections varied between countries: on average it took 10.5 hours in the Netherlands and 26 hours in England. In Sweden the time varied according to which method was used. The total station laser method took between 10 and 16 hours compared with the GPS method, which took between 3 and 4 hours. Clearly the size of farms is an important factor in the length of time taken - English farms are on average 2.8 times larger than those in Sweden, (78 hectares compared to 28 hectares), for example.

Remote sensing

2.21 Remote sensing to carry out checks has been used since the mid-1990s in the Netherlands and England. In Sweden it was used in five counties in 1995 and 1996 but not in 1997 because future financing arrangements had not been resolved. Following remote sensing, suspected irregularities still have to be followed up by on-the-spot inspections. The table below illustrates the extent of remote sensing usage in the three countries.

Usage of remote sensing and follow up on-the-spot inspections	Table 2.3		
	Netherlands (1997)	Sweden (1996)	England (1997)
Number of claims examined by remote sensing	3110	2700 ⁽¹⁾	1203
Number of claims followed up by on the spot inspection	283 (9%)	145 ⁽¹⁾ (5%)	91 (8%)

Note (1): Estimated

2.22 The results of the three audits generally indicated that remote sensing could be an effective method of checking claims. The Swedish and English Audit Office reports indicated that remote sensing was a relatively expensive method of checking although, as the technology improved, it had become more cost effective over time. The Swedish National Audit Office has recommended that the SJV should resume remote sensing as one of the means of checking claims.

Effectiveness of checking methods

2.23 In Sweden the total cost of processing and checking by county boards amounted to some SEK 85 million (Ecu 9.9 million) in 1996 and in England the regional running costs alone were some £7.3 million (Ecu 9.9 million) in 1996-97. The expense incurred on checking claims led the audit offices to review whether checks were identifying irregularity.

2.24 The examination in Sweden included an extensive audit of the methods used for checking and their relative effectiveness. Aspects of the relative effectiveness of methods were also examined in England. They found that:

Detection of irregularity

- In Sweden, as a result of all checks, less than 13 per cent of claims were changed of which one to two per cent were deemed irregular. The number of changes would have been a lot less if the number of farmer errors caused by them not understanding the regulations had been lower.
- In England the Ministry found irregularities in some 2,700 claims (under 6 per cent), and some 6,700 claims were reduced as a result of set aside or simplified scheme requirements. These figures excluded simple clerical errors by farmers which did not require adjustment to the amounts due but increased the cost of processing.

Relative effectiveness of different methods

- In Sweden, of the methods used to select claims for inspection, the administrative checks and the remote sensing resulted in significantly higher rates of detected irregularities, 4.7 and 7.4 per cent of claimed area respectively. The random stratified sampling method of selection did not reveal as many irregularities (1.1 per cent) relative to the amount of resources expended.

- In Sweden, the total station laser method was assessed to be the most efficient method of measuring land. 5.8 per cent of claimed area was found to be irregular using this method, compared with 0.5 per cent, for example, using in-office instruments ('planimeters'). About 90 per cent of all measuring was carried out by planimeters.

- In England, the Ministry did not collect full data which would allow the relative results and costs of the main types of checks to be compared. In any event, relative cost effectiveness might be difficult to assess because of the unknown extent of deterrence.

- In England, 820 cases out of the 2,700 referred to earlier were serious enough to result in the application of penalties. Half of these 820 were identified as a result of field inspections and half as a result of in-office checks. The vast majority of the 6,700 claim reductions and of the simple clerical errors will have been detected as a result of in-office checks.

Deductions and Penalties Imposed on Farmers

2.25 The European Union regulations require member states to apply deductions and penalties to claims which are irregular. The total amount of deductions imposed by each country is shown in Table 2.4 below:

Value of deductions imposed on farmers

Table 2.4

	Netherlands (1997)	Sweden (1996)	England (1997) ⁽¹⁾
Total value of deductions applied	Nlg 5,700,000	SEK 8,000,000	£3,200,000
	Ecu 2,559,000	Ecu 927,000	Ecu 4,342,000
(Deductions as a % of total amount paid to farmers)	(2.0%)	(0.2%)	(0.3%)

Note (1): Figures exclude errors of a clerical nature.

2.26 The audit findings indicated that each administration applied appropriate deductions and penalties to farmers once irregular claims had been detected. Relatively few irregularities appeared to arise from fraud or serious negligence. For example in England, there were only 25 cases of suspected fraud or serious negligence between 1993 and 1997, which represented one in every 10,000

claims. Two-thirds of the cases investigated were not recommended for prosecution mainly due to the difficulty in proving that farmers had knowingly or recklessly given false information.

2.27 In general the proportion of land involved in irregularities in relation to the total amount of land covered by claims appeared to be very small. For example, in Sweden 233,000 hectares of claimed land were inspected in 1996. As a result of field inspections, the claims were reduced by 2,300 hectares, or 1.0 per cent. The value of claim reductions was estimated by the RRV to be SEK 8 million (ECU 0.9 million) compared to the total amount paid of SEK 3,800 million (ECU 440 million), or 2 per thousand.

Conclusions on checks on claims, inspections and remote sensing

2.28 There was general agreement in the audit reports that checks on Scheme claims in each country were sufficient and being carried out to the quality and extent required by the European Union. Deductions and penalties were also applied in accordance with European Union regulations although they formed a very small proportion of the amounts claimed.

2.29 In Sweden, however, the audit found that the methods and techniques employed for control activities could be carried out more efficiently. The methods used to select the farmers to be checked and the methods of field measuring could be changed so that more applications could be checked without the expenditure of additional resources. In England the audit report considered more data was required on the relative efficiency of each type of check to enable the Ministry to make comparisons and target areas of highest risk. The audit report noted that the Ministry had decided to review whether the level of in-office checks could be reduced or better targeted while still meeting the European Union's specific requirements for the levels of checks required to prevent and detect irregularities.

Information Technology

2.30 Each country uses computers to support the processing of claims. Computer systems in the Netherlands and England date from the 1980's. They are far older than Sweden's computer systems which were developed in 1994 and 1995, preceding that country's accession to the European Union in 1995. Each country had experienced particular difficulties with its computer system although the problems experienced by England and the Netherlands had been similar:

- The systems had become outdated and unable to cope satisfactorily with the complexities of the Scheme.
- Difficulties in validating claims, sometimes due to inaccurate or missing data.
- Significant numbers of occasions when the system had been unavailable to users leading to delays.
- Extra work had had to be undertaken to keep the systems running, leading to additional costs of administration.

2.31 In Sweden the audit found that in 1995-96, there were serious problems with the development and operation of the computer systems. Problems with security and accessibility caused additional costs as well as delays. The SJV overcame these problems in 1997, although the audit found that county administrative boards did not have sufficient influence over the prioritisation of system development at crucial points, nor were users sufficiently involved to facilitate more efficient processing.

2.32 The administrative bodies for agriculture in England and Sweden were seeking to invest substantially to improve their computer systems. In England, the Ministry of Agriculture was proposing to re-develop its computer systems by a proposed investment of £42 million (Ecu 63 million). In Sweden significant amounts of investment had been requested by the SJV for the period from 1998 to 2000. The Swedish audit found that information supporting the investment did not include reliable calculations that would justify additional expenditure, nor were there indications of expected savings. Investment was required to correct problems caused by a sub-standard development programme.

2.33 In the Netherlands, the Court of Audit recommended that a cost-benefit analysis of a new computer system should be carried out.

Conclusions on information technology

2.34 There had been significant problems with computer systems in the application of the scheme, which had added to the cost and time spent checking claims. All three countries' administrative bodies were planning or considering further investment in computer systems to support this complex scheme.

Farmers' views on the scheme

2.35 The Netherlands and Swedish audit offices conducted customer surveys of farmers to ascertain their views on the operation of the Scheme. In England, the audit office employed an advisory panel including a farmer and farming consultant.

2.36 The main findings of the surveys in the Netherlands were that: over 40 per cent of applicants felt that it took too long to fill in the application form (compared with 34 per cent who felt otherwise); 52 per cent of applicants had problems with the completion of the form and 43 per cent of them indicated that this was due to the Scheme's complexity. Over 30 per cent of applicants considered that the cost of submitting an application was too high. In particular, the cost of the topographical maps was too expensive. The majority of applicants were satisfied with the design of the application form and explanatory booklet provided by LASER.

2.37 In Sweden, the survey found that 68 per cent of farmers considered that the quantity of information provided by the administration to complete their application forms was sufficient although 83 per cent said that changes to their claims were due to unnecessarily complicated Scheme regulations which caused misunderstandings and longer processing times. Many farmers thought that there were problems in contacting central or regional offices and that the regulations were difficult to interpret and not clearly explained. The average time taken to complete a form was 1.2 to 1.6 hours, although it could take up to 50 hours. An examination of the claim forms of the surveyed farmers showed some types of change in 45 per cent of forms. The percentage of forms where changes could affect the area of land claimed was, however, only 12 per cent and the changed area was only 1.6 per cent of the total claimed area.

2.38 In England, analysis of a random sample of scheme claims showed that the farmers had made errors in 22 per cent of those claims. Just over half of these were simple errors which did not result in reductions to the amount claimed. The resolution of these errors and requests for additional or missing information can add significantly to the time needed for processing claims. In those regional offices where a high proportion of claims were delivered by hand, the level of simple errors was lower. However, there were extra costs in providing staff to carry out some initial checks to ensure that the claim is complete and that there are no obvious mistakes, such as a missing signature, when the claims are delivered by hand.

Conclusions on farmers' views

2.39 In the Netherlands and Sweden, where the audit offices conducted surveys, farmers were generally satisfied with information about the Scheme published by their respective administrations. Farmers were also satisfied with the service provided by the administrations. In the Netherlands, for example, applications were dealt with carefully, professionally and within the stipulated time limit. However, in all three countries farmers had difficulties in completing the forms and in avoiding simple errors.

Part 3: The Arable Area Payments Scheme in the Netherlands

3.1 Scope of the audit

The Netherlands Court of Audit investigated the quality of the administration of the Arable Area Payments Scheme in the Netherlands. The Ministry of Agriculture, Nature Management and Fisheries is responsible for the administration of the Scheme and the Ministry has entrusted this task to the National Service for Aid Schemes (Laser).

The audit related to 1996 and 1997. In these two years together, 576 million guilder (261 million ECU) were paid to over 100,000 applicants in the Netherlands. The annual administration costs were estimated at almost 20 million guilders (9 million ECU). Checks and inspections led to deductions of over 15.7 million guilders (7 million ECU) over the two years.

3.2 Data collected during the audit

Number of applications processed

Number of applications submitted per region⁽¹⁾

Table 3.1

LASER region	1996 simplified scheme	1996 main scheme	1997 simplified scheme	1997 main scheme
North	6,738	1,048	6,546	1,090
East	16,795	96	16,458	120
Northwest	4,642	281	4,430	413
Southwest	13,464	816	13,114	1,061
Southeast	8,769	103	8,687	142
Total	50,408	2,344	49,235	2,826
Total per year	-	52,752	-	52,061

Note (1): Source: CCS report for 1997 (appendix 2 to the 1997 evaluation of surface area applications).

The figures in this table include applications that concern forage area only. Forage applications are made on the same application form as those for the Arable Area Payments Scheme but are separate from them. In the case of forage area applications no payment is made under the Arable Area Scheme. About 2,800 applications a year are for forage only.

Not all applications for Arable Area Payments are approved. The following table presents information on approved applications.

Total and average payment per region (approved) in guilders

Table 3.2

LASER region	1996 total	1996 average	1997 total	1997 average
North	67,838,024	9,736	66,543,352	9,829
East	58,394,916	3,683	56,890,685	3,687
Northwest	35,473,923	8,026	33,803,069	7,889
Southwest	89,849,653	6,554	90,001,162	6,741
Southeast	38,344,879	4,429	39,030,853	4,557
Total in guilders	289,901,395	5,844	286,269,122	5,914
Total in ECU	132,694,988	2,675	128,520,495	2,655

Handling time per application

The total time required for the acceptance, processing (including administrative and physical checks) and payment of an application comprises the time spent by Laser, the AID (general inspectorate) and an external office (remote sensing).

In the case of Laser, handling time includes the following activities: provision of information, initial acceptance and administrative checks, input, processing of inspection results from remote sensing and the AID, further processing, payment and follow-up.

Laser's handling time per application (in hours)⁽¹⁾

Table 3.3

LASER region	1996 incl. follow up	1997 incl. follow up
North	2.9	2.4
East	2.0	2.0
Northwest	3.1	2.0
Southwest	1.9	2.3
Southeast	2.7	2.4

Note (1): Source: LASER's 1997 CCS report. The time specified per application is the total time spent, including follow-up relating to previous years (this amounted to 2,765 hours for 1996 and 14,637 hours for 1997)

The AID (general inspectorate) carries out on-the-spot checks for Laser. The AID's handling time includes the following activities: preparation and study of files, travel time, actual inspection activities (including notifying the farmer of the findings) and reporting. (Source: AID)

Physical inspections

According to the AID, it spent a total of 10,899 hours on physical inspections in 1997. The total number of inspections in that year was 1,041, or 10.5 hours per inspection (In 1997 1,047 files were transferred to the AID for inspection purposes. However, 6 cases had not been finalised at the end of 1997 due to the criminal prosecution of the applicants). The corresponding figures for 1996 were: 13,872 hours for 1,156 inspections, or 12 hours per inspection.

The external office that carried out the remote sensing inspections for Laser checked 3,110 applications in 1996 and 3,063 in 1997.

Penalties

The following table shows all penalties imposed on farmers in 1996 broken down according to the different types of inspection.

Penalties imposed on farmers in 1996 as a result of inspections ⁽¹⁾	Table 3.4		
	Type of inspection	0-3% and < 2 ha	3.20% and > 2 ha
AID (on the spot)	175	280	95
Remote sensing	63	64	49
Total	238	344	144
Surface area concerned	50 ha	360 ha	504 ha

Note (1): Source: Report on administrative checks relating to surface area claimed for 1996.

Cost of processing applications

The cost of processing applications comprises the costs of human and material resources incurred by Laser, the AID (general inspectorate), and the remote sensing office. The AID's administration costs are not passed on to Laser but these costs are, of course, incurred under the administration of the Arable Area Payments Scheme and should be included in the overall cost to the Netherlands as a member state. It proved impossible to determine the actual total costs (1996 and 1997) connected with the Scheme's administration and the Court therefore used an estimate of the costs.

In 1997, on the basis of its annual plan for that year, Laser was able to give a rough indication of the total costs – 355 guilders, or 159 ECU - it had incurred per application (including remote sensing). The AID indicated that it had incurred costs of about 1 million guilders (449,000 ECU). On the basis of this information, in 1997, the total cost of administering the Arable Area Payments Scheme in the Netherlands was about 19.5 million guilders (8.8 million ECU). This corresponded to 374 guilders (168 ECU) per application (including forage area) incurred jointly by Laser, the remote sensing office and the AID.

Cost of applications for arable area support in 1997 (in guilders)

Table 3.5

Cost item	1997
Cost per application: 355 ⁽¹⁾ guilders, total no. of applications: 52,061	18,481,655
AID inspection time x hourly rate (1,041 inspections, approx. 10.5 hours each, at an all-in rate of 92 guilders per hour) ⁽²⁾	1,002,817 ⁽²⁾
Total	19,484,472

Note (1): Source: LASER's 1997 annual plan; the amount is indicative.

Note (2): Source: AID.

Complaints per region

Complaints submitted to Laser by applicants regarding the handling of their claims

Table 3.6

Region	Number in 1996 ⁽¹⁾	% of applications in 1996
North	132	1.7
East	847	5.0
Northwest	108	2.2
Southwest	277	1.9
Southeast	95	1.1
Total	1,459	2.8

Note (1): Source: LASER.

3.3 Audit results: conclusions and recommendations

The Court of Audit concluded that Laser's financial management of the Scheme is in accordance with the provisions laid down by the European Union. The Ministry has incorporated the European legislation into national legislation as required. Checks are carried out with sufficient frequency and seem to be adequate. Since 1996 Laser has paid attention to the efficiency of its own operations.

However, the Scheme is very complex, and the Ministry has problems with the administration of the Scheme. It is not always clear how compliance should be monitored, and this undermines the efficiency of administration. Farmers confirm that the scheme is too complicated: 52% of them had problems with the submission of an application and 44% needed help filling in the form. The Court of Audit recommends that the European Commission be urged to simplify the Scheme and that the difficulties in administering it be brought to the Commission's attention.

The quality of the computer support for checks could be improved. Two of the systems used are outdated. The shortcomings slow down the processing of applications and verification of data. The Court of Audit recommends that a cost-benefit analysis of a new computer system should be carried out as soon as possible.

Despite an increased focus on efficiency, the level of efficiency still proves difficult to establish. There are important differences between regional offices, which the 1997 evaluation did not sufficiently clarify. There is still not enough information on which to base future plans. The Court of Audit recommends that consideration be given to both quantitative and qualitative explanations for differences in the way in

which each region spent time, with a careful distinction being drawn between external and internal factors. In addition, attention needs to be paid to the uniformity of statistics and the collection of data on administration costs.

Not enough has been done to develop an integrity policy. This is particularly true of the General Inspectorate (AID). The Court of Audit recommends that Laser formulate its own code of ethics given its imminent acquisition of agency status.

On the basis of a survey among farmers who claimed Arable Area Support, the Court of Audit concludes that Laser generally deals with applications carefully, professionally, and within the stipulated time limit. However, 62% of applicants who submit a complaint were dissatisfied with the way it is handled. Laser could take steps to improve the level of satisfaction.

3.4 Reaction of the Minister of Agriculture, Nature Management and Fisheries and afterword by the Court of Audit

The Netherlands Court of Audit sent its findings to the Minister of Agriculture, Nature Management & Fisheries at the end of July 1998 for his comments. He replied in early September 1998. His reaction is outlined in this section, followed by an afterword by the Court of Audit.

The Minister of Agriculture, Nature Management & Fisheries generally endorsed the Court of Audit's conclusions. He agreed that the European legislation is very complex and that this undermines the efficiency of administration. He took up a number of points in more detail.

European legislation

The Minister agreed with the Court of Audit that special attention should be devoted to simplifying the legislation. In 1997 the European Commission launched a project to simplify the Community's agricultural legislation. In addition, one of the objectives of Agenda 2000 is to reform the arable sector. The Commission has asked member states to make concrete suggestions. The Netherlands submitted a number of proposals, dealing with, among other things, the reform of the Arable Area Scheme.

In conclusion, the Minister stated that the Netherlands wholeheartedly supported the European Commission's intention to simplify legislation and would scrutinise its progress. The European Commission has emphasised that simplification is a difficult process which will take some time to accomplish.

Integrity policy

The Minister stated that Laser will adopt a firm approach to an integrity policy. He took the view that the risks are limited, since division of duties was taken into account when the organisation was set up. In May 1998, the AID (general inspectorate) drew up an initial memorandum on a code of ethics and has since appointed a counsellor. According to the Minister, other points raised by the issue of an integrity policy, such as the question of 'vulnerable jobs', would be addressed in 1998 and 1999.

Quality of computer systems

The Minister stated that he would draw up an investment programme for developing and improving computer systems, taking into account the remarks made by the Court of Audit. However, priority would be given to solving the 'millennium bug' and euro problems.

Processing efficiency

The Minister stated that a detailed action plan had been drawn up for 1998 which will be used to steer and monitor processing efficiency. Several improvements have been made in this regard and he estimated that efficiency would improve by 15 to 20%. An evaluation has shown that contracting out data entry work reduced costs and improved processing efficiency.

Due attention will be given to improving efficiency in the years ahead and the qualitative, quantitative, and external causes of the differences between the regions will be examined. The accuracy of statistics will also be reviewed.

The cost of administering European legislation

The Minister stated that the costs incurred by Laser in administering European legislation will be specified separately in the Agriculture Ministry's draft budget for 1999.

Customer orientation

The Minister agreed with the Court of Audit's conclusion that the level of satisfaction among applicants can be improved by paying extra attention to the handling of complaints. The application forms and information booklets will be submitted to a panel at an earlier stage. In addition, the possibility of carrying out a

broader customer survey will be examined. The Ministry's 1998 trial of user-friendly maps needed for submitting applications will also be evaluated at a later date.

Afterword by the Court of Audit

The Court of Audit is pleased to take note of the improvements that the Minister has initiated. The Minister generally endorsed the Court of Audit's conclusions and accepted all of its recommendations. The Court reiterates the need to improve the quality of the computer system which must not be lost sight of, now that priority has been given to solving the 'millennium bug' and euro problems. In addition, the slow rate at which European legislation is being simplified continues to give cause for concern. The process initiated in 1997 to simplify legislation had not led to any concrete results in the third quarter of 1998. Moreover, the quality of the computer system and the simplification of legislation are closely connected. Finally, the Court of Audit urges that an ethical standards policy for the AID be developed as soon as possible.

Part 4: The Arable Area Payments Scheme in Sweden

Background to the Scheme in Sweden

4.1 Expenditure and claims

When Sweden joined the European Union in 1995, direct support to farmers was introduced according to the regulations that apply to all European Union member states. The base area for Sweden covered by support was set at 1.7 million hectares of arable land.

In 1996 about 60,000 claims for Arable Area Payments (AAP) were submitted in Sweden. Compensatory payments of SEK 3.8 billion (ECU 0.38 billion) were distributed, which amounted to approximately 60% of the total direct support paid to Swedish farmers. The Swedish National Board of Agriculture (SJV) and the county administrative boards administer the AAP Scheme.

4.2 Administration of the Scheme in Sweden

The Swedish administration of the Scheme differs from many other countries in that independent authorities conduct regional administration. As the SJV does not have a regional organisation it is necessary to divide responsibility for the Scheme between central and regional administrative bodies. In other countries, regional administration is more often a part of the government's central administration or Ministry.

The Ministry of the Interior has chief jurisdiction over the activities of the county administrative boards. At the regional level, 24³ county boards are responsible for ensuring that the delegated tasks are carried out. The government's direction of the county administrative boards becomes more complicated than that of other authorities. The county administrative board has a coherent responsibility in a geographically defined region for government operations in which many Ministries are involved.

3 By merging some counties the number of counties was reduced to 23 in 1997, and 21 in 1998.

As the central authority, the Government has assigned the SJV a co-ordinating, supportive and advisory role with respect to agricultural matters in the county administrative boards. The SJV is responsible for informing and training county administrative board personnel. The SJV therefore provides all staff training for county administrative boards within its area of responsibility and is the authority designated to ensure compliance with EU regulations. The Board of Agriculture may issue instructions on how processing claims should be conducted and is also responsible for the development and administration of computerised processing systems.

The 24 agricultural offices or their equivalents at the county administrative boards process and administer the various support schemes and have regional responsibility for advising farmers. The county administrative boards are also responsible for making sure that approved applications are entitled to support and comply with Community regulations. They must perform administrative and physical checks on claims before payments are made by the SJV.

As for the county administrative boards in general, the administration of agricultural support is funded by appropriations from the Ministry of the Interior whereas the agricultural support is funded by the Ministry of Agriculture.

Findings of the RRV examination

4.3 Efficiency of processing claims

Cost of administering the scheme

In 1996, the cost of administering all EU agricultural support measures in Sweden amounted to approximately SEK 415 million (ECU 41 million).⁴ The costs of administering AAP in 1996 were just above SEK 100 million (ECU 10 Million), of which approximately SEK 85 M was accounted for by the county administrative boards.

Length of time taken to process claims

There are relatively great variations in efficiency between the various counties, even though the regulations and routines for dealing with claims are similar. The time required to process applications can be two to three times longer in one

4 Source : SJV report 1997 : 05-07, dnr 03-914/97

county than in another. Factors such as the structure of the county or its geographical size did not affect the processing time to an extent such that differences in efficiency among the county administrative boards were explained.

Cost of processing claims at regional offices

Administrative costs to county administrative boards for AAP could be reduced by at least SEK 13 Million (ECU 1.3 million) annually if all counties were able to administer the required routines for a maximum cost of SEK 1,200 (ECU 121) per claim. In 1996, costs for eleven counties were less than that amount and it is the opinion of the RRV that other counties should be able to administer the scheme for no more than SEK 1200 (ECU 121).

EU control norms and the demand that farmers should be treated equally have resulted in excessive resources being allocated to counties which handle a comparatively small percentage of the total amount of compensatory payments. In 1996 30% of county administrative board resources were consumed for processing and checking less than 10% of the SEK 3.8 billion (ECU 384 million) distributed to farmers.

The RRV found no significant differences between the routines of the county administrative boards, nor in the nature of the claims they administer which could justify the spending of a higher share of the total resources by the “smaller” counties. There was neither adequate measurement of results nor comparative data found for 1996. The agricultural units of counties did not co-operate nor did they co-ordinate their activities to take advantage of one another’s experiences related to the efficient use of resources.

Farmers’ views on the implementation of the scheme and errors in claims

Farmers’ responses to a survey showed that they were largely satisfied with the informational material about agricultural support distributed by the SJV. However, farmers did meet with some difficulties in processing the applications and understanding the regulations. In response to the survey, farmers said that most of the changes made by the county administrative boards to their applications for support stemmed from typographical errors or misunderstood regulations.

The RRV audited the applications of all farmers included in the group selected to participate in the survey. If the errors and changes that can be considered as stemming from unclear information about a few regulations are removed, the

actual number of errors becomes a few per thousand of all compensation claims. As it cannot be determined what compensation would be paid if checks were not conducted at all, this is not a wholly appropriate measure of the efficiency of control activities. However, the audit did conclude that applications could probably be checked much more efficiently.

Computer system support; deficiencies and costs

The SJV is responsible for the development of the necessary computer support for the administration of AAP and other agricultural support schemes by the county administrative boards. During 1995-1996, there were extremely serious problems with the development and operation of the EDP systems. In 1996 problems with security and accessibility caused significant additional costs as well as delays and the waiting time without access estimated by the RRV to be a total of 12,000-18,000 working hours for the county administrative boards. The SJV mainly overcame these problems during 1997. However, the audit showed that so far there had not been user involvement in the development of the computer system that would serve to make the processing of claims more efficient. The opinion of the county administrative boards is that, in regard to the crucial questions, they do not have sufficient influence over what the priorities in development tasks should be.

Between 1995 and 1997, the SJV spent approximately SEK 35 million (ECU 3.5 million) on computer system development for agricultural support. In addition, the Board has requested a further SEK 50 million (ECU 5.0 million) from the Government for the years 1998-2000. In appropriations in the budget proposition for the 1998 year, the Government included the funds required for the first year. In general, it is the opinion of RRV that this investment is necessary to correct problems caused by a substandard development programme. The supporting information, reviewed by RRV, does not include reliable calculations and specifications that would justify additional expenditure on development, nor was any indication made of expected savings.

4.4 Prevention and detection of irregularities

Level of irregularity

An examination of the checking programme in the Scheme found that that the county administrative boards performed field inspections on 8% of the approximately 60,000 Swedish farmers who applied for AAP. In total, 233,000 hectares of cultivated land were inspected and measured using various methods.

The extensive programme for registration, field inspections and indoor checks at the county administrative boards, conducted with the assistance of the SJV, was calculated by the RRV to cost approximately SEK 100 million (ECU 10.1 million) annually. In 1996, checks led to a maximum of 1.5% or 3,400 hectares failing the controls over the Scheme. Compared to the total of SEK 3.8 billion (ECU 384 million) paid to farmers, the RRV calculated that the irregularities amounted to SEK 8 million (ECU 0.8 million).

The comprehensive control programme led to the denial of compensation for a maximum of one or two per cent of the arable area applied for in claims. This rate of error could probably be further reduced if information about a number of regulations could be improved. If that were to happen the actual outcome from checks would become a few per thousand of the total value of support claimed for.

Field checks on claims

The methods and techniques employed for checking claims could be made more efficient. Both the methods used to select the farmers to be checked, and the methods of measuring claimed areas, could be changed so that more claims could be checked. It is the opinion of the RRV that this could be implemented without requiring additional resources. The efficiency of the controls is dependent upon which methods and techniques are used to measure arable area. The RRV found neither an EU regulation that stated which method of selection should be employed, nor what percentage of checks should be carried out within each county. Consequently, it should be possible for the Swedish administration to choose more efficient methods for selection and checking.

4.5 Co-ordination of administrative bodies

During its audit, the RRV found that there was a lack of co-ordination between the county administrative boards with respect to comparable management information from their accounting systems, cost estimates of staffing requirements, interpretation of regulations or requirements for efficient computer support.

Recommendations

4.6 Efficiency of processing claims

On the costs and length of time to process claims

The Government should further develop the type of results measurements used for 1996. However, requirements for follow-up reports must be well defined and communicated to the county administrative boards before the beginning of the fiscal year if the county administrative boards' time recording systems and accounting plans are to be successfully adapted in time. All county administrative boards should introduce time recording systems. A common structure for accounts with minimum requirements and certain obligatory accounts should be established to facilitate comparisons of results between county administrative boards.

During 1997, some of the resources of the agricultural units were required to draw up block maps. Also, other resources for the administration of AAP could be used more efficiently. The Government should consider whether counties relatively well provided for with resources for the administration of EU support schemes should be given cost objectives and be allocated resources on a cost per claim basis.

The possibilities for co-ordinating county board administrations should be considered, including:

- Information on results per county and reporting of all results to the county board in all counties.
- Transfer of certain administrative tasks between counties. In those counties where there is not a large enough claim volume to ensure the efficient processing of arable area based support schemes, the claims from several counties should be handled by one designated county administrative board. It is the opinion of the RRV that this can be done without reducing the information and assistance provided to farmers.
- The volume of claims, checking requirements and the need for equal treatment of farmers should not be the only determining factors when resource requirements for administration are calculated. Resources for the

administration of EU support schemes should be redistributed to counties that process larger payment amounts and not according to criteria that only reflects the number of claims for various forms of support.

There is reason to believe that processing and administration for 1997 can be done less expensively than for 1996, owing to the stabilisation of processes. Flexible personnel management within the county administrative boards with utilisation of personnel loans over unit lines and more frequent use of temporary personnel for limited tasks can further reduce the resource requirement. Furthermore, the allocation of resources between the counties should take greater account of the value of claims criterion than has previously been the case.

On farmers' views and errors in claims

The Swedish National Board of Agriculture, which has the chief responsibility for providing written information on the Scheme, should find new methods of making the information more comprehensible and accessible to farmers. This could be achieved, for example, by allowing reference groups of farmers to read the information and allowing their views to be taken into account at an early stage before the information is generally distributed.

A test should be conducted to determine whether farmer errors and time consuming correction processes could be reduced if supplementary information was focussed on the problem areas and addressed with oral and written information. During 1996, this mainly applied to the regulations concerning converted land, the minimum limit of arable area entitled to compensation and applications involving leased farms. According to the SJV, information about problems with applications has already been addressed in this manner. However, since the criticism still appears to be justified and is not of insignificant extent, the Board should consider whether this information could be better formulated.

On computer system support

More efficient administration in the future depends upon the involvement of users of the EDP systems in the processing and testing of operations to a much greater extent than has so far been the case. The question of whether the current allocation of responsibilities between the SJV and the county administrative boards should be changed to achieve better management of the administration of the Scheme should be examined. Greater responsibility could be assigned to the SJV while maintaining the benefit of the proximity of the regional organisations to the

farmers. This could occur by changing the financing arrangements of the county administrative boards, so that the SJV would fund the activities of the county administrative boards through appropriations from the Ministry of the Interior.

The planned further development of computer support for agricultural administration meets the high demands for security and flexibility. However, we have not so far obtained supporting information that shows that the significantly higher costs will result in savings for future administrative tasks which will justify the investment.

4.7 Irregularities

On indoor checks on claims

The experience gained from checks performed in previous years should be systematically collected and analysed in collaboration with the county administrative boards. Information, such as new changes to regulations, should be tested on farmers to see whether they understand it. The test should be carried out before the application period so that changes can be made before proper applications are submitted. Newsletters from county administrative boards and special publications of new instructions from the SJV could be utilised for this purpose. The extra investment that may be required would be offset by reductions in the costs incurred by the county administrative boards to correct errors.

On field checks on claims

The field inspection programme employs methods which could be used more efficiently. The composition of both the sampling and the field measuring methods could be changed to allow a greater number of applications to be checked where there are stronger indications of significant errors in farmers' claims. The direction towards larger arable farms could be intensified. These changes could be implemented without requiring additional resources.

4.8 Co-ordination of administrative bodies

The government's direction of operations at the agricultural offices cannot be done efficiently if better co-ordination is not achieved. The existing lack of direction leads to an unnecessarily poor relationship between the county administrative boards and the SJV, which is the central authority. Differences of opinion about the further development of the computer systems and financing issues vital to the

agricultural offices demonstrate the lack of an effective dialogue at the management level to establish determinate roles of the SJV and the county administrative boards.

There are demands from government that operations should be run efficiently, but what this entails is not specified. Increasing the efficiency becomes more an issue for county management without any actual information about how the county administrative boards perform relative to each other. It is apparent that the SJV has great influence over expenditure on resources for administration, yet the SJV has no responsibility for determining the resource requirements of administration. No demands concerning the level of economic performance are placed at the Ministry level upon the agricultural office level. The SJV could, in its capacity as co-ordinator and developer of methodology, implement changes without necessarily having to consider the needs of the county administrative boards for support and is not obliged to give due consideration to them in their proposals for improvements in processing claims.

Based upon interviews, we found that there is no co-ordination between county administrative boards concerning their accounting systems, account plans, interpretation of regulations and needs for computer support. Consequently, the conditions do not exist that would guarantee uniformity of processing of individual farmers' applications and which would direct resources where they are needed most.

**Methods used by the
Swedish National Audit
Office (RRV)**

The Swedish National Audit Office (Riksrevisionsverket, RRV) conducted an audit to determine whether Swedish authorities were administering AAP efficiently and whether their checks of applications for support were efficient. The staff of agricultural units at eleven county administrative boards were interviewed about problems encountered with the scheme. All county administrative boards replied to a survey about their costs.

A separate survey was sent to a group of 300 randomly selected farmers, where they answered questions about whether they received adequate information which was of sufficient quality to prevent them from making errors in their applications.

An audit firm was commissioned by RRV to audit the development of administrative computer systems by the Swedish National Board of Agriculture (SJV). Data from the SJV database relating to the checking activities were processed by the RRV. Finally, interviews were conducted with staff and managers from the SJV and the Federation of Swedish Farmers (LRF).

Part 5: The Arable Area Payments Scheme in England

Background to the scheme in England

Expenditure and claims

5.1 The Arable Area Payments Scheme is the largest of the Common Agricultural Policy schemes operating in the United Kingdom. In 1997-98 it accounted for some £1.3 billion, or 31 per cent of expenditure on such schemes, of which £1.1 billion was in respect of payments to farmers in England.

5.2 In 1997 there were claims covering over 3.7 million hectares of arable land. Out of some 47,000 claims, 30,000 were made under the main scheme and 17,000 under the simplified scheme. The average value of claims was £22,500 although individual payments ranged from £80 to over £2 million. The United Kingdom was the third largest recipient of aid under the Scheme but had a significantly higher average value of claims compared to all other countries. This reflected significant differences in the pattern of agriculture holdings, with farms in the United Kingdom being almost twice as large on average as those in any other member state; and the fact that payment rates set by the European Union were based on historic average cereal yields.

Administration of the Scheme in England

5.3 In England, the Scheme is administered by the Ministry of Agriculture, Fisheries and Food (the Ministry). Administration responsibilities are divided as follows:

- Nine regional offices have operational responsibilities. They input and validate farmers' claims, carry out field inspections, report irregularities and authorise payment.
- One of the nine regional offices, Cambridge, is the National Scheme Management Centre ('lead' region) for the arable scheme and is responsible for making sure payments are made by deadlines and field inspection targets

are met, preparing guidance and instructions, ensuring best practice across regions, providing advice in difficult cases and providing statistical information.

- A headquarters policy division in London retains overall responsibilities for negotiating with the European Union and amending Community rules, arranging appropriate national legislation, and liaising with lead regions.

Findings of NAO examination

Efficiency of processing claims

Cost of administering the scheme

5.4 In 1997-98 the full cost of administering the Scheme was £12 million, which was only one per cent of the total annual value of payments to farmers, a low proportion in comparison to some other Common Agricultural Policy Schemes. This represented a cost of £254 per claim.

5.5 However, while the number of claims submitted by farmers remained broadly constant throughout the life of the Scheme, the full cost of processing these claims had risen from £9 million in 1993-94 when the Scheme was introduced to £12 million in 1997-98, an increase of 33 per cent (21 per cent in real terms). Within those totals, the cost of checking Scheme claims at regional offices had risen by £2.2 million, an increase in real terms of 64 per cent. The cost of inputting claims onto the database and performing initial checks under the Integrated Administration and Control System had also increased, by £0.2 million. The increase in the cost of checking Scheme claims could be attributed to the increased level and type of checks that Ministry staff were now required to carry out on each claim, partly due to the need to refer back to previous years' data.

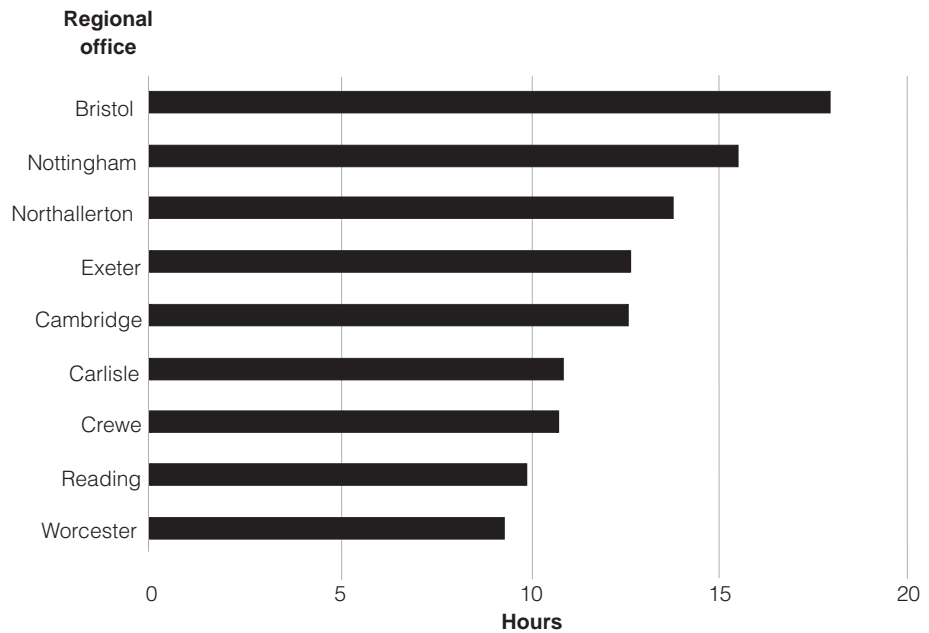
Length of time taken to process a claim

5.6 Using information from the Ministry's time recording system, the NAO calculated the average time taken to process and verify an Arable Area Payments Scheme claim in 1996-97 was 12.7 hours. However, the NAO's analysis of the average time taken at each of the 9 regional office (Table 5.1) showed wide variations, ranging from just over nine hours in Worcester to nearly 18 hours per claim in Bristol. In order to test whether 1996-97 was representative, the NAO also calculated the average processing times in previous years and found that there was little change in the relative ranking of regional offices.

The average time taken to process an Arable Area Payments Scheme application by regional office

Table 5.1

The average time taken to process a Scheme claim in 1996-97 varied from 9 hours to 18 hours



Source: National Audit Office analysis of data from the Ministry's time recording system

Note: The analysis excludes agency staff and the time recorded by field inspection staff and Lead Region work, which are not routine processing activities

5.7 The NAO investigated the reasons for regional variations in the average processing time and found the following:

- The regional variations in efficiency were not fully explained by numbers of claims and economies of scale. Nor on the analysis the NAO was able to make at that time did it appear that there was an optimal number of claims which could lead to greater efficiency.
- There were factors inherent in claims which have an impact on their complexity and on the time taken to process them. However, although there were significant differences in the numbers of claims of differing complexity received by regional offices, these did not account for all the regional variations in processing time.

- Similarly, variations in the error rates in farmers' claims did not generally correlate with processing times. However, the percentage of farmer errors in a sample of claims at Bristol suggested some contribution to that region's high average processing time.

- The impact of staffing was harder to quantify and the NAO could not find evidence that this was a factor in regional variations. However, problems of retention of staff, and the need to employ temporary staff at peak periods, suggest that competence and experience is important and may be one of the factors in the increasing cost of processing claims.

Information technology support for claims processing

5.8 The Ministry uses information technology to support claims processing. The annual expenditure on information technology to support arable payments had risen from £0.5 million in 1993-94 to £3 million in 1996-97. The increase reflected enhancements to the original system, which had become expensive and time-consuming to maintain. The existing computer system was also inherently difficult to use. It gave rise to many interruptions in the processing of individual claims and contributed substantially to the difficulties experienced by regional offices in administering the Scheme. It also made the complex processing tasks expected of staff particularly difficult and frustrating.

5.9 When new systems are developed to support regional and other management of Common Agricultural Policy schemes in England the Ministry predicted significant efficiency gains. New systems might simplify the tasks expected of staff on the Scheme, and help reduce the effects of high staff turnover and improve the efficiency of regional offices.

Prevention and detection of irregularities

Level of irregularity

5.10 In 1996-97 the Ministry detected irregularities on 2,700 Scheme claims which resulted in a total reduction of some £1.43 million in payments to producers. The total area overclaimed amounted to 3,500 hectares. The Ministry applied penalties on 820 of these cases and rejected 138 cases entirely. The value of

reductions on cases with penalties was £1.06 million (Table 5.2). In addition some 6,700 Scheme claims were proportionately reduced as they had insufficient set-aside or had exceeded the area limit for simplified claims. The value of these reductions was a further £1.77 million.

The number and value of Scheme claims with penalties in 1996 – by method of discovery

Table 5.2

The Ministry applied penalties on 820 cases – recovering or withholding some £1.06 million.

Methods of discovery	Number of claims on which penalties were applied	Value of penalties (£)
In-office checks	400	465,700
Field inspections	416	575,400
Remote sensing	4	14,000
Total	820	1,055,100

Source: National Audit Office

5.11 The Ministry's annual irregularity reports to the European Commission (irregularities over 4000 ecu) indicated that there had been a steady increase in the number and value of cases reported under the Arable Area Payments Scheme:

- the number of cases reported under the Scheme increased from 35 in 1995 to 108 in 1997;
- the value of these irregularities increased from £226,000 in 1995 to £848,000 in 1997; and
- the total value of irregularities between 1995 and 1997 was £1.6 million of which just over £810,000 has yet to be repaid by farmers.

5.12 There were a number of contributory factors that led to the increase in the number of cases reported under the Scheme: the Ministry improved its arrangements for reporting irregularities; the strong pound reduced the threshold for reporting; and each case included the action taken by the Ministry to recover overpayments from previous Scheme years.

Checks on claims

5.13 There are three main categories of detailed checks which the Ministry applies: in-office checks, field inspections and remote sensing.

In-office checks

5.14 The Ministry’s in-office checks comprise a series of manual and computer based checks that are performed on Scheme claims to confirm that they comply with the rules, and the amounts claimed are arithmetically correct. In 1996-97, in-office checks led to the detection of 1,719 irregularities. Penalties were applied on 400 cases, which represented 0.9 per cent of all Scheme payments. The Ministry did not collect information on the value of all irregularities or errors identified as a result of in-office checks. However, those cases which led to the application of financial penalties or to reductions of claims amounted to some £840,000. The figure included an element, not separately identified, relating to in-office checks following remote sensing.

Field inspections

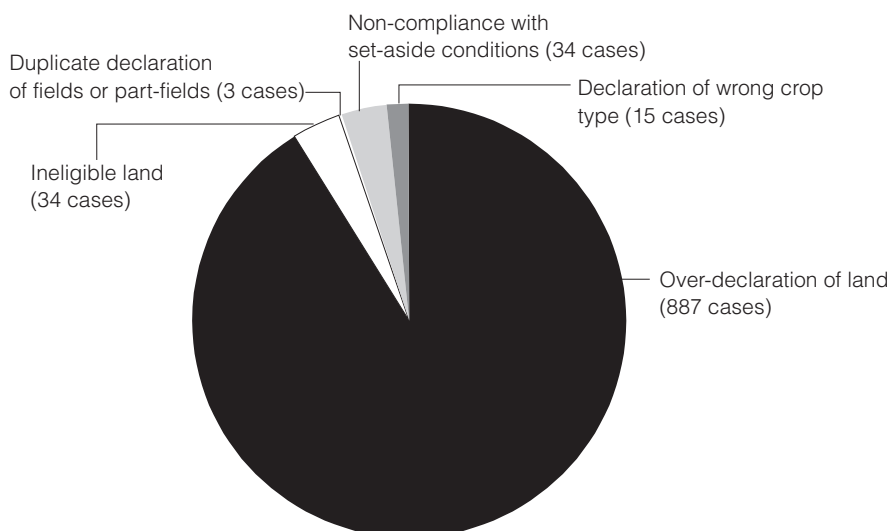
Findings

5.15 Field inspections involve the physical verification of claim details such as field sizes and crop types. In 1996 the Ministry carried out 2,100 random field inspections and found irregularities on nearly 1,000 cases, most commonly in the over-declaration of field sizes (Table 5.3). On 388 of the claims inspected these overclaims led to the application of penalties. The total value of reductions on claims with penalties was some £520,000 and the area over-claimed amounted to 2,400 hectares. The discovery of overclaims does not always lead to reductions

Irregularities on Arable Area Payments Scheme claims in 1996-97

Table 5.3

In 1996-97 the Ministry detected nearly 1,000 irregularities as a result of their field inspections.



Source: National Audit Office examination

if field inspections identify fields on which the farmer has made an under-claim. In these cases the Ministry calculates the net effect of under and over-declarations for each crop group before making deductions.

Targeting risk

5.16 The Ministry has established a risk based selection model to choose the sample of claims for field inspection. The criteria are based on the potential risks under the Scheme and conform to the factors set out in European Commission regulations. The Ministry also targets applicants who are known to have broken the rules of this and other schemes. We found that the Ministry had undertaken limited analysis on the results of field inspections to determine whether resources were targeted towards the higher risk areas. In 1998 the Ministry revised its approach to sample selection to ensure that smaller claims were better represented in field inspection samples.

Timing of field inspections

5.17 In 1996 and 1997 the Ministry set a target of completing field inspections by 31 August, which is traditionally about the end of the harvesting period. In 1998 the target was set to complete 95 per cent of inspections by the end of August and 100 per cent by the end of September. The NAO found that in 1996 some regional offices carried out significant numbers of their field inspections well after the target of 31 August. This could have affected the effectiveness of inspections. However, the Ministry had achieved significant improvements in the timing of inspections such that in 1998 six regional offices completed all their inspections, and the remaining three completed 95 per cent or more of their inspections, by 31 August.

Conduct of field inspections

5.18 In view of the role in minimising fraud, error and the risk of European Commission disallowance, it is important that field inspections are properly managed and carried out. To meet these requirements, the Ministry had issued field inspectors with instructions on the conduct of inspections. On the conduct of field inspections the NAO examined 10 per cent of all inspections and found that:

- Regional offices varied surprisingly in the methods they used in 1996 on inspection visits; and collected different levels and type of information on the conduct and results of their field inspections, thereby reducing the scope of the Ministry to identify and address any weaknesses.
- In 1996 the average field inspection covered 260 hectares and took 26 hours to complete. There were wide variations between regional office averages, ranging from 12 hours to 46 hours. An absence of detailed information did not enable us to analyse the impact of this for all regional offices.

- In 1997 and 1998 the Ministry had made progress in improving the management and conduct of field inspections.
- There was scope for further improvement, for example to assist the collection of consistent data and thus enable more monitoring and comparisons.

Remote sensing

5.19 Remote sensing involves the analysis of satellite imagery to measure field sizes, identify crop types, as the basis for checking the eligibility of land. Since 1992 the European Union has provided technical support, although the financial support to member states for contractual costs of remote sensing has now ceased. The Ministry first used remote sensing in 1992 and had since examined over one million hectares of farmland subject to area aid applications. The accuracy of the technique had improved and it had a deterrent effect.

5.20 The contract cost of remote sensing had fallen from £434 per case in 1992 to £242 in 1997-98, in part due to the impact of competitive tendering. However, investigation by regional staff and a field inspection of each case is still necessary to check the accuracy of the results and follow up potential discrepancies. This and administration of the remote sensing programme was estimated by the Ministry to amount to about another £115 per case. In 1997, the Ministry reduced the number of remote sensing cases for analysis in detail and therefore correspondingly fewer cases than in 1995 and 1996 were identified as warranting investigation. However, the value of claim reductions in 1997 as a result of remote sensing was still over £200,000 compared with around £240,000 in 1995 and 1996.

Prosecutions

5.21 Regional staff are responsible for identifying whether an irregularity constitutes a potential criminal offence and for referring such cases to the Ministry's Investigation Branch. Once an investigation has been completed, the Ministry's lawyers decide whether the suspected offender should be prosecuted under the Scheme regulations or general criminal law.

5.22 Between 1993 and 1997 regional staff referred 25 cases of suspected fraud or serious negligence to the Investigation Branch, which represented one in every 10,000 claims in the first five years of the Scheme. The most common types of suspected irregularities referred for investigation were breaches of set-aside rules (10 cases), claims for non-existent or wrong crop groups (four cases), the

over-declaration of field sizes (three cases), and claims for ineligible land (three cases). Regions discovered almost half of these suspected irregularities as a result of tip-offs from other farmers and a further quarter as a result of field inspections.

5.23 Two-thirds of the cases referred to the Investigation Branch were not recommended for prosecution. The main reason, which applied in half of these cases, was that the Ministry could not prove that the farmer knowingly or recklessly provided false information at the time of making the claim.

Disallowance imposed by the European Commission

5.24 The first three years of the Scheme from 1993 to 1995 involved expenditure of over £2.5 billion on payments to farmers. By the time of the report, the Ministry had only accepted disallowance of £195,000 for these years. Later years were still under discussion. Where the Ministry's performance has been in danger of failing to meet requirements it had responded to advice from the Commission.

Management of set-aside land

5.25 In 1997 over 250,000 hectares of land were set aside in England, and the Ministry paid farmers some £81 million in compensation, under the basic rules set by the European Commission. Within this framework, the Ministry established detailed national rules which define the different types of set-aside land and the rules common to all set-aside land that farmers must meet if they are to qualify for scheme payments, and penalties that would be applied, if farmers failed to comply with the regulations.

5.26 The main aim of set aside is to contribute to the Scheme's objectives for controlling the level of production. The variations in the level of land required to be set aside limit the environmental benefits which can be achieved. However, within these constraints, the Ministry has set prescriptions for the management of the land and given advice to farmers which seek maintain the land in good agricultural condition and where possible to achieve environmental benefits such as numbers of birds and greater variety of wildlife.

5.27 Studies commissioned by the Ministry have shown that set-aside has resulted in some environmental benefits such as improvements in the natural habitat for wildlife. These studies and the experience in managing the set-aside element of the Scheme may be of benefit in the future if environmental objectives become a stronger feature of Common Agricultural Policy schemes, as was proposed by the European Commission's Agenda 2000.

Recommendations

On processing claims

5.28 The reasons for variations in regional processing times did not appear to lie in factors such as the number and complexity of claims or levels of farmer error. They may or may not lie in factors within the control of management. The Ministry should explore further reasons and take whatever steps it could to reduce average times to the lowest possible level while maintaining standards. To this end the Ministry did establish a new central unit in late 1998, one of whose tasks is to compare the efficiency between regional offices.

5.29 The establishment of performance targets, such as time taken to process a claim, might be of benefit in identifying the reasons for variations and improving performance. Pending the outcome of work by the new central unit, the Ministry might use the results of the NAO's analysis to examine the reasons why some regional offices with comparable numbers of complex claims under the arable area scheme took significantly longer to process such claims.

5.30 The problems of staff turnover, employment of temporary staff, periods of peak demand, and complexity of processing reinforced the importance of adequate induction and on-going training for staff on both clerical and computer based activity. The Ministry's introduction in 1998 of a revised training strategy should help reduce such problems. The Ministry should monitor the take-up of new programmes by regional offices and evaluate the success of the training given.

5.31 The rising costs and increased time spent checking claims suggested that review and updating of information technology support was appropriate. The Ministry was planning a major new system to be introduced in the next five years for administering all Common Agricultural Policy schemes. If taken forward, a formal project methodology should enable evaluation of the project in due course against objectives, budgets and timetables.

On checks to prevent and detect irregularities

5.32 The Ministry is required to comply with European requirements for the level and nature of checks. To that extent the relative cost and benefit yield of such checks are not the only criteria for judging whether they are successful. However, more data on the value of errors found as a result of the different categories of

checks should be collected. This would enable comparison of regional efficiency and review whether checks are targeted at the areas of highest risk and are effective in detecting errors.

5.33 The Ministry had decided to review the level of in-office checks on all schemes could be reduced or targeted at risk areas while still meeting European Union requirements and the demands of prevention and detection. The NAO thought this advisable in view of the rising cost of administration of the Scheme.

5.34 On field inspections, the Ministry should:

- evaluate the impact of the changes in 1998 to the method of selecting claims for field inspection;
- ensure that all field inspections are completed by target dates;
- investigate the wide regional variations in time spent and the numbers of satisfactory field inspections in order to judge the quality and consistency of inspections;
- instruct field officers about the improved conduct of on-farm inspections and on the reporting of results; and
- monitor the implementation in the regions of the new training initiatives to promote rigorous and consistent field inspections. This should include training for map preparation teams.

5.35 In a number of areas highlighted above, such as reasons for variations in efficiency, the costs and amounts saved by checking, and the database on field inspections, improvements in the collection, analysis or use of management information would enhance the Ministry's monitoring of performance and its management of the Scheme.

On disallowance

5.36 Given the potential scale of disallowance or other penalties, the Ministry was aware of the need to continue to make every effort to ensure that all its processing and control systems are not open to criticism or disallowance. In this

respect, the Ministry had been largely successful. Many of the recommendations by the NAO should assist the Ministry in ensuring that control systems remain effective.

On set-aside

5.37 The results of research and the experience and lessons from the management of set-aside be taken forward by the Ministry in future responses to European Union initiatives on environmental objectives.

Note. The 25th Report of the Committee of Public Accounts of the House of Commons published in July 1999 (ISBN 0-10-556258-0) reflected the Committee's conclusions and recommendations on the administration of the Arable Area Payments Scheme. The Committee took evidence from the Ministry of Agriculture, Fisheries and Food based on the report by the Comptroller and Auditor General.

**Methods used by the
National Audit Office in its
examination of the Arable
Area Payments Scheme**

The examination involved the following tasks:

- A calculation of the full cost of administering the scheme.
- Tests to check whether claims were processed accurately and expeditiously. A sample of 1 per cent of scheme claims was examined.
- Tests to check on the timeliness and quality of on-the-spot farm inspections.
- Comparisons of efficiency in regional performance and tests on different hypotheses that might explain the differences in regional performance.
- An evaluation of the management controls over the scheme.
- Examination of the Integrated Administration and Control System database and computer system.
- A review of the use made of remote sensing.
- A review of the Ministry's management of set-aside element of the scheme.
- Analysis of the action taken by MAFF in cases of irregularity detected.
- A review of disallowance and penalties imposed by the European Commission.

In order to carry out these tasks the auditors:

- Visited all nine regional offices of the Ministry of Agriculture Fisheries and Food to assess the administration of the scheme.
- Discussed procedures and practice with staff at each regional office
- Examined relevant files and documents, including legislation, regulations and guidance material, reviewed legal cases.
- Interviewed key staff at policy divisions in London
- Discussed results and findings from all work

An advisory panel of three experts with agricultural experience provided advice on study methodology, commented on the Scheme, our findings and on the farmer's perspective on the administration of the scheme.

Appendix 1: The rules of the Arable Area Payments Scheme

The Arable Area Payments Scheme offers payments per hectare to growers of eligible crops on eligible land. The European Union determined the Scheme regulations and sets payment rates. There are general rules covering the Scheme and then farmers can claim in one of two ways: the main scheme or simplified scheme.

General rules

- Land entered into the Scheme must be eligible. Land must have been in arable production or part of a recognised arable rotation on 31 December 1991. Land that was in permanent grass, permanent crops, woodland or non-agricultural use at that time does not qualify for Arable Area Payments.
- Farmers cannot claim Arable Area Payments on any land counting towards the requirement for an area of forage under the livestock schemes.
- All crops must be fully sown and maintained in line with normal agricultural practice so that they could be expected to produce a normal marketable crop. Farmers must notify their regional office of any crop failure to avoid the risk of penalties.
- There may be a minimum application size, (0.3 hectares in England) and a minimum crop plot size (0.1 hectares in England).
- Payment rates are based on historic average cereal yields in each member state. They are set in ecu and converted into member states currencies at the agricultural exchange rate applying on 1 July following sowing, as determined by the European Union. A “frozen” rate of exchange may be applied if there is an appreciable revaluation.
- Payments for cereals, protein crops, linseed and set-aside are made between 16 October and 31 December following harvest. Payments for non-food crops on set-aside can be paid up to 31 March.

- Payments for oilseeds are made in two parts. An advance payment, of up to 50 per cent of the aid, is made by 30 September with the balance paid early in the following year when the final payment rate has been confirmed, taking account of the level of market prices and production.

Main scheme rules

- There is no upper limit on the area of eligible land on which farmers can claim but they must set a proportion of their land aside. The cropped area will be reduced if area set-aside is less than the requirement. The set-aside rate may be changed annually by the European Commission in light of market conditions.
- Eligible crops include cereals; oilseed rape; sunflower seed; soya beans; dry peas; field beans; sweet lupins; and linseed. Payments are made at different rates for different crop groups.
- Obligatory set-aside is the land that must be entered into set-aside to claim Arable Area payments. Under the right circumstances, farmers can also enter additional land into set-aside or count land under other environmental schemes towards their set-aside requirement.
- Eligibility of land in set-aside: the land must be eligible for Arable Area Payments; have been farmed for at least two years (although there are certain exceptions); and either have been cultivated in the preceding year with the intention of producing a harvestable crop or have been in a set-aside scheme.
- Set-aside land cannot be used for any form of agricultural production or any non-agricultural purpose that brings a return in cash or kind (there are exceptions under very restricted conditions when growing some industrial crops).
- Each individual block of set-aside must cover an area of at least 0.3 hectares and be at least 20 metres wide throughout. There are strict restrictions on the eligibility of smaller areas.

The proportions of land required to be set-aside each year are as follows:

Changes in set aside arrangements 1993-99

Year	Type of set-aside	Description	Set-aside requirement (%)
1993	Rotational	Land could only be entered into set-aside in one year out of six	15
1994	Rotational or non-rotational	In 1994 the option of non-rotational set-aside was introduced which allowed farmers to enter the same land into set-aside.	Rotational: 15 Non-rotational: 18
1995	Rotational or flexible	In 1995 the introduction of flexible set-aside allowed farmers the option of leaving their set-aside in the same place.	Rotational: 12 Flexible: 15
1996	Obligatory	In 1996 a single rate was introduced. Obligatory set-aside may be left in the same place or moved from year to year	10
1997	Obligatory	As above – but the set-aside requirement was reduced.	5
1998	Obligatory	As above – but the set-aside requirement was reduced.	5
1999	Obligatory	As above – but the set-aside requirement was reduced.	10

Simplified scheme rules

- Farmers can claim payments on a maximum specified area of crops.
- They are not required to set land aside.
- Payment is made at the rate for cereals regardless of the crop type grown, provided those crops are eligible for the scheme.
- Farmers cannot claim under both main and simplified schemes.

Integrated Administration and Control System aspects

The Integrated Administration and Control System was required by the European Commission across all member states in 1992 as part of the reform of the Common Agricultural Policy. Its primary purpose is to strengthen controls over payments to farmers under a number of Common Agricultural Policy schemes and to combat fraud. To qualify for payment, farmers are required to submit an annual application providing full details of their farmed land. This application is a dual purpose one containing information for the Integrated Administration and Control System as well as the Arable Area Payments Scheme.

The key elements of the Integrated Administration and Control System are:

- a computerised database developed by each member state enabling them to undertake detailed checks of farmers' claims;
- a unique alpha-numeric identification system for each agricultural field parcel covered by an aid application under any of the Common Agricultural Policy schemes;
- a system for identification and registration of animals under livestock schemes;
- an annual requirement for farmers to submit certain specified information about their holdings to the national authority, in order to be eligible for aid;
- an integrated system for checking and inspecting claims; and
- a uniform set of administrative penalties for irregular claims.

By establishing the unique identification of all fields and part-fields, the System is designed to prevent and detect duplicate payments or payments for non-existent land. Farmers are required to provide detailed information on the use of all their eligible land, including information on the size and use of individual sections of fields (called parcels) that are included in the current claim. Farmers are not eligible for aid under any of the Common Agricultural Policy schemes if they fail to submit their annual Integrated Administration and Control System application. Incomplete, inaccurate or late forms result in the partial or total loss of aid under these schemes. The penalties for incorrect or fraudulent claims are severe and can lead to exclusion from the aid scheme concerned or, in the most serious cases, criminal prosecution.

Farmers have to comply with the following rules to be eligible for payment.

- Farmers are required to submit an area aid application each year, even when there are no changes to the use of their land.
- The area aid application, together with all supporting documentation, must be received by the authorities by 15 May. The application must reflect the position on the farmed land at this date.

- It is possible to notify amendments to the area aid application before 15 May but only minor corrections are acceptable after this date. It is not possible to make corrections that involve a change in the cropping plan or an increase in aid entitlement after 15 May, although areas claimed can be withdrawn.
- Separate applications must be submitted for different farms that are managed as separate businesses provided that the farmer can meet specific criteria.
- There are two parts to the area aid application: the base form which requests general information about the applicant and farmed land; and the field data which requires information on the area claimed on a field by field basis.
- If fields are sub-divided between different crops or part of the field is set-aside, farmers are required to determine the area of each part of the field and provide a sketch map showing the temporary field division.