National Audit Office

Report
by the Comptroller
and Auditor General

Department for Environment, Food & Rural Affairs

Early review of the Common Agricultural Policy Delivery Programme

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Key facts

£215m

budgeted cost of the CAP Delivery Programme in the September 2015 business case

40%

increase in costs in the three years since the outline business case

7

fundamental changes to the Programme that increased the level of innovation and risk

£1.8 billion	average annual value of Common Agricultural Policy (CAP) payments in England, 2015 to 2020
105,000	payments to farmers expected every year
88,000	Basic Payment Scheme claims received from farmers and agents, mainly via drop-in centres and by post
£642 million	total disallowance penalties incurred in England since 2005
4	senior responsible owners for the CAP Delivery Programme between May 2014 and May 2015

Summary

1 Since 2012, the Department for Environment, Food & Rural Affairs (the Department) has been leading the CAP Delivery Programme (the Programme) involving its main delivery bodies, the Rural Payments Agency (RPA), Natural England and the Forestry Commission, and with support from the Government Digital Service (GDS) in the Cabinet Office, to deliver the new Common Agricultural Policy (CAP). The CAP is the European Union (EU) framework of subsidies and rural development programmes. The Programme was originally forecast to cost £155 million and expected to bring benefits of £274 million, supporting payments to farmers from 2015.

Structure of the report

2 Our report sets out the key events since the Programme began and how these have affected the development of the Programme and its likelihood of success. The report covers:

- the background and rationale for the Programme (Part One);
- the design and vision for the Programme (Part Two);
- system development (Part Three); and
- the revised plan, introduced in March 2015 (Part Four).

The Common Agricultural Policy

3 In England, the Department has overall responsibility for the CAP. It pays out £1.8 billion each year to English farmers and landowners under two funding 'pillars':

- Pillar 1 primarily provides direct support to farmers through the Basic Payment Scheme (BPS); and
- Pillar 2 provides funding for rural development programmes, such as the Environmental Stewardship Scheme and the Countryside Stewardship Scheme that replaces it.

4 The EU reforms the CAP every seven years or so. The current regulations came into force in 2014 and are expected to be in place until 2020. They require more complex schemes to be implemented in 2015. The Department aimed to have a new service in operation in time to accept BPS applications by the EU deadline of 15 May 2015, and begin making BPS payments to farmers in December 2015. Some farmers continue to receive payments for Pillar 2 schemes from the previous CAP regime and payments for these legacy schemes began in October 2015.

5 The reform of the CAP took many years. Policy, primarily at the European level, was finalised late in the process. This led to delays in finalising detailed control requirements in England, in some cases until after implementation had started, adding to the complexity of the Programme.

The case for change

6 Systems developed to support the previous CAP regime in 2005 were beset by problems.[1] Under the previous delivery arrangements, farmers had to apply separately for different elements of the CAP, creating a disjointed user experience. The systems used ageing software and were increasingly costly to maintain. Staff had to carry out many processes manually. This increased the risk of errors, which, in many cases, led to the European Commission (EC) imposing penalties, known as disallowance. During the previous CAP period (2005 to 2014) the Department incurred disallowance penalties of £642 million, primarily related to issues with the implementation of the system in 2005. Given the complexity of the new CAP, the Department decided that the existing systems could not be enhanced to support the new service.

7 The Programme was established to address these failings. It aimed to:

- reduce delivery costs;
- reduce exposure to disallowance penalties;
- improve customer experience;
- provide flexibility to accommodate last-minute decisions and rule changes by the EC; and
- improve capacity to achieve environmental outcomes.

1 Comptroller and Auditor General, *Department for Environment, Food & Rural Affairs, and Rural Payments Agency, The delays in administering the 2005 Single Payment Scheme in England*, Session 2005-06, HC 1631, National Audit Office, October 2006.

Programme delivery failures

8 The new service did not operate as originally intended at two key stages during its first year:

- **Registration**

  The Department expected applicants to start using Verify, the government's identity assurance system, to register for the new service from October 2014. However it quickly became apparent that Verify was not sufficiently developed to assure the identity of a significant proportion of farmers, and did not therefore work as the Department expected. Although a small number of farmers were able to register through Verify, the majority of customers registered using the RPA's existing customer registration process, supported by drop-in centres and RPA's telephone helpline.

- **Applications**

  In March 2015, in response to serious failings of the system, the online application system was withdrawn and replaced by 'paper-assisted digital' applications for the 2015 schemes.

9 As a result of the withdrawal of online applications, the RPA had to enter many application forms and land data changes manually. Manual data entry and the late development of interfaces with old systems that continue to be used, along with a one-month extension granted by the EU to the BPS application deadline, impacted the RPA's ability to make interim payments for the Environmental Stewardship Scheme. As a result, payments totalling £200 million that otherwise could have been made from August 2015 were made from October 2015.

10 By March 2015, when the online application system was withdrawn, there was limited functionality within other components of the system. They were not fully integrated; development of links to legacy systems required to make payments had ceased; accounting and payment systems had been deprioritised and delayed; and there were other significant technical issues and problems with land data. A comprehensive recovery plan was therefore created to develop the infrastructure required, mitigate the significantly increased risk of disallowance penalties and minimise delays of payments to farmers. The budget contingency had been used up and the forecast cost of the Programme at this stage was £183 million.

11 The Department submitted a revised business case to HM Treasury in September 2015. By this point, the cost had risen to £215 million, 40% higher than originally planned, despite reductions in the planned level of functionality. This reflects cost overruns leading up to the withdrawal of the applications system in March 2015, and subsequent recovery actions.

Key findings

Strategic design

12 **The original vision and design of the Programme was narrow.** It focused on procuring IT systems and did not set out the wider organisational transformation required. There was no clear vision at the outset of the desired state of business operations nor a route map showing how the organisations involved should move towards it. In the outline business case, the Department did not clearly set out how it would achieve the expected savings from changes to the delivery bodies' business processes (paragraphs 2.2 to 2.3).

13 **There are differences in strategic direction and vision between the Cabinet Office, the Department, the RPA and other delivery bodies.** The different priorities of the organisations involved were not resolved and caused disruption and delay at the beginning of the Programme. The RPA's priority was to pay farmers accurately and on time, and minimise the risk of disallowance penalties, while the focus for Natural England and the Forestry Commission was to achieve environmental outcomes and build relationships with their customers. The Cabinet Office aimed to encourage innovation, reduce costs and develop learning across government as part of the government's digital strategy to build digital services based on user needs (paragraph 2.4).

14 **Many fundamental changes were made to the Programme, significantly increasing the level of innovation and risk.** The Cabinet Office applied its ICT spending controls to the Programme and proposed changes that would bring it into line with the government's digital strategy. Although the Department did not have previous experience of many of the changes, and they were relatively new across government, the Department did not consider that they increased the overall risk of failure for the Programme, but did identify risk mitigation plans for individual Programme elements. It is not clear that the changes were all appropriate or that the Department and Cabinet Office fully understood the implications of implementing them all at once. For example, the Department took on the systems integration role without having the necessary skills or knowing that they would be able to obtain them (paragraphs 2.5 to 2.9 and 3.28 to 3.29).

15 **The Department did not give timely consideration to how it would reduce the risk of disallowance penalties.** The outline business case did not provide sufficient detail about the specific steps it would take to reduce the risk of disallowance penalties, or which elements of disallowance are within the Programme's control. In January 2014, it became clear that the EC intended to apply much higher rates of disallowance in some cases, but the Department did not begin developing its detailed response to the increased risk until later in the year when further details were released by the EC. As a result of the EC's higher rates and insufficient mitigation, the Department expects disallowance penalties to exceed its 2% target by some margin (paragraphs 2.10 to 2.15).

System development

16 **The Programme has been set back by numerous changes in direction, senior responsible owner and governance.** Since the start of the Programme, there have been four different senior responsible owners (SROs), each from a different background and each bringing their own style, vision and priorities. Repeated changes to governance arrangements have disrupted the Programme and caused uncertainty and confusion for staff. SROs have not been formally trained or enrolled in the Major Projects Authority's Leadership Academy and not all had experience of delivering government major projects of this scale and complexity (paragraphs 3.3 to 3.5).

17 **The Department failed to prevent counterproductive behaviours by senior leaders.** There were deep rifts between Programme leaders at many stages of the Programme's history. These went beyond the healthy tension that could be expected in a multi-organisational programme, not only hindering progress but also impacting on staff morale and stress. Despite attempts to resolve these behaviours, the Department was not able to stop them (paragraphs 3.10 to 3.12).

18 **Inconsistent and incomplete management information and assurance, alongside a good news culture, prevented effective progress monitoring and risk management.** Management information has at times been patchy and inconsistent. Producing and sharing good quality, complete and meaningful management information was not always given sufficient priority. The Department did not consistently and transparently acknowledge and respond to findings from external assurance. The pervasive good news culture meant that early warnings of possible failure were unvoiced or not adequately addressed, nor appropriate contingency plans developed. This began to improve at the beginning of 2015, but the consistency and continuity of management information continues to be an issue in progress updates produced for the Secretary of State. These reports have recently been supplemented by a weekly dashboard that provides a factual view of achievements against an expected profile (paragraphs 3.14 to 3.22).

19 **GDS did not provide the support the Department needed.** GDS committed to reducing overall costs, improving delivery confidence and building the Department's digital capability to support approval of the business case and the adoption of new approaches unfamiliar to the Department. Through the Programme:

- formal estimates of cost reductions were not provided;
- the Major Projects Authority's delivery confidence assessments did not improve; and
- although GDS provided resources to the Department, its support was reported to be patchy. GDS provided limited continuity and insufficient insight into how to adopt agile on this scale. It was not able to identify and provide the systems integration skills required (paragraphs 3.23 to 3.25).

Damage limitation

20 **In March 2015, in response to serious failings of the system, the requirement for all customers to apply online was withdrawn and replaced by 'paper-assisted digital' applications for the 2015 scheme.** The Department acknowledged that it would no longer be possible to achieve a fully online approach in 2015. To ensure that farmers could apply by the deadline, an alternative approach involving paper-based applications for some customers was needed, using paper forms that were entered manually into the claims processing system, which connected with the other planned supporting systems. This was a speedy and effective change to the Programme that has increased the likelihood that the majority of farmers will receive their BPS payments in December (paragraphs 4.2 to 4.7).

21 **The focus on resolving immediate issues has diverted attention from longer-term goals of improving the service to farmers, minimising disallowance penalties and achieving other intended benefits.** The Programme is intended to support the delivery of CAP for ten years starting in 2015. Efforts to enable and handle paper-based applications have necessarily changed short-term priorities for the Programme diverting resources from the longer-term priorities of achieving efficiencies and addressing the land data issues that are causing current disallowance penalties (paragraph 4.12).

Conclusion on value for money

22 The Programme is a combined effort between the Department, the RPA, other delivery bodies and GDS to develop new systems and processes to support the implementation of the new CAP in England. But ineffective collaboration between these bodies undermined their ability to deliver a successful rural payments service. The Department and the Cabinet Office did not ensure a clear and consistent vision for the Programme with a manageable level of innovation. Nor did they effectively manage competing priorities. The result is that the Department expects higher levels of disallowance penalties, increased Programme costs, poorer customer experience and difficulties paying farmers accurately at the earliest opportunity. The Programme has therefore not provided value for money at this early stage.

23 The Department took action in March 2015 to revert to paper-based applications for some customers and ensure the infrastructure was in place to support this. Implementing these recovery actions and containing the costs of the revised approach is a significant challenge, and the Department is making good progress to meeting its target of paying BPS claims for the majority of farmers in December. However, significant challenges remain to make sure this year's payments are accurate, to prepare for future years, maximise Programme benefits and minimise disallowance penalties.

Recommendations

a **The Department must ensure it focuses on longer-term priorities to continue to support efficiencies and minimise disallowance penalties in 2016 and beyond.** The pressure to resolve immediate issues and ensure farmers are paid on time has diverted resources away from longer-term objectives. The Department should provide greater clarity about the Programme's benefits, in particular the desired state of the delivery bodies, the benefits the Programme will bring and how their realisation will be monitored.

b **The Department and the RPA should ensure that payments made are accurate.** Manual data entry generated a high proportion of errors. The Department is implementing controls to mitigate these errors, but should ensure end-to-end checks and associated assurance is in place and comprehensive. It should quantify the risk of inaccuracies arising from gaps in mitigating controls, and must not allow the target to pay in December and January to lead to payment inaccuracies and significant disallowance penalties.

c **The Department should maintain a strong and consistent leadership for the Programme.** The frequent changes to leadership have led to shifts in focus and governance arrangements. To deliver the longer-term benefits and ensure everyone across the Programme is working towards the same goals, the Department must develop a clear vision that withstands any future change of SRO. The Department should also ensure that SROs have appropriate experience and training relevant to the role.

d **The Department should review how it sought to address personal rifts in the Programme.** It should identify relevant lessons to improve future performance and ensure that such behaviours can be addressed and seen to be addressed.

e **The Department must ensure it has meaningful and consistent management information and that clear milestones allow progress to be tracked.** The leadership has at times been unable to adequately manage the Programme or measure progress due to the poor quality and inconsistency of management information and an absence of clear milestones. The Department must guard against a good news culture by encouraging honest discussion, ensuring reporting is balanced and that concerns can be raised openly and risks more easily identified.

f **The Department must establish a comprehensive understanding of the full costs of delivering the CAP.** The Department does not know the full cost of the Programme across all the organisations involved. Its current estimates do not include all immediate costs of recovering the Programme, nor longer-term costs of disallowance penalties and ongoing maintenance and support.

g **The Department must provide a range of application methods that suit the diverse needs and abilities of its customers.** The drive to enable online registrations and applications for all those who wanted it led to a failure to accommodate the different levels of digital literacy of the Programme's customers and the differing levels of complexity in their claims. The Department must now ensure that it delivers the functionality to make multiple channels available to meet the needs of all of the different customer groups.

h **The centre of government should learn from what has gone wrong, and for future programmes develop a more flexible approach to dealing with departments implementing them.** The changes to the Programme created gaps in skills and experience within the Programme that neither the Department nor GDS could resolve and therefore added to the risk that the Programme would fail to deliver its aims. In response, the Cabinet Office should:

- provide stronger written guidance and capability building for departments on agile management and governance for major projects and how it fits with traditional governance structures;
- take into account departments' capability and capacity to apply new methods and ensure sufficient flexibility and support in their adoption;
- adopt an approach that is more sensitive to the risks and culture of the organisations and teams involved, in order to ensure that the best use is made of GDS's limited resources and that cost savings are delivered;
- support departments in acquiring the management and technical skills required to apply agile at scale;
- ensure it has appropriate accountability for programme delivery when significant changes to programmes are enforced; and
- step in to resolve conflicts quickly when departments are not able to do so themselves.