

House of Commons
Environment, Food and Rural
Affairs Committee

**RURAL PAYMENTS
AGENCY**

Sixth Report of Session 2002–03

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Affairs Committee

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*Report, together with
the Proceedings of the Committee, and the
Minutes of Evidence and Appendices*

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The Environment, Food and Rural Affairs Committee is appointed by the House of Commons to examine the expenditure, administration and policy of the Department for Environment, Food and Rural Affairs and its associated public bodies.

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No.152. These are available on the Internet via www.parliament.uk. The Committee has the power to appoint two Sub-committees.

The Committee agreed on 30 October 2002 that it would nominate a Rural Payments Agency Sub-committee to undertake this inquiry.

Current Membership

Mr David Curry (Chairman) (*Conservative, Skipton and Ripon*)
 Ms Candy Atherton (*Labour, Falmouth and Camborne*)
 Mr David Borrow (*Labour, South Ribble*)
 Mr Colin Breed (*Liberal Democrat, South East Cornwall*)*
 David Burnside (*Ulster Unionist, South Antrim*)
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 David Taylor (*Labour, North West Leicestershire*)
 Paddy Tipping (*Labour, Sherwood*)*
 Mr Bill Wiggin (*Conservative, Leominster*)*

* These Members were nominated as members of the Sub-committee. Mr Paddy Tipping was the Chairman of the Sub-committee.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet on its website:

http://www.parliament.uk/parliamentary_committees/environment_food_and_rural_affairs.cfm

Contacts

All correspondence should be addressed to the Clerk of the Environment, Food and Rural Affairs Committee, Committee Office, 7 Millbank, London SW1P 3JA. The telephone number for general inquiries is: 020 7219 3262; the Committee's e-mail address is: efracom@parliament.uk.

Footnotes

In the footnotes of this Report, references to oral evidence are indicated by 'Q' and the question number. References to written evidence are indicated by 'Ev' and the page number, usually followed by the paragraph number.

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SIXTH REPORT

The Environment, Food and Rural Affairs Committee has agreed to the following Report:

RURAL PAYMENTS AGENCY

Introduction

1. The Department for Environment, Food and Rural Affairs (Defra) sponsors a large number of agencies and non-departmental public bodies.¹ This Committee's intention is, over time, to examine the work of these bodies.² We published a report into the work of the Countryside Agency last year.³ We have appointed a rapporteur to examine the work of Horticulture Research International. And we have regularly taken written and oral evidence from other associated public bodies in the course of our various inquiries. As part of this continuing programme we announced on 24 July 2002 that we would carry out a short inquiry into the Rural Payments Agency (RPA).⁴ We appointed a Sub-committee for the purpose, which took oral evidence on 28 January 2003 from the Agency's Chief Executive, Operations Director and Finance Director.⁵ We also received memoranda from Defra, the RPA, the National Farmers' Union and an individual farmer, Mr Michael Read. We are grateful to all those who contributed to the inquiry.

2. The Rural Payments Agency is a new Executive Agency formed following the merger of the payment work of MAFF's Regional Services Group and the former Intervention Board. The role of the Regional Services Group, which was part of the former Ministry of Agriculture, Fisheries and Food (MAFF), was to deliver services to farmers (such as a reception service for farmers bringing claim forms for Common Agricultural Policy (CAP) subsidies and giving general advice), to police expenditure under CAP programmes and to contribute to broader strategic policy in the English regions.⁶ The main work of the Intervention Board, one of MAFF's Executive Agencies, was the provision of price support for food producers, processors and traders.⁷

3. In July 2000, the Minister of Agriculture, Fisheries and Food announced his intention to bring together the payment functions of the Regional Services Group and the Intervention Board under one roof, in order to "provide top quality customer service using modern electronic systems".⁸ In November 2000 Mr Johnston McNeill, former Chief Executive of the Meat Hygiene Service, was appointed Chief Executive of the new organisation, which at the time was to be known as the CAP Payments Agency (CAPP). Before Mr McNeill took over responsibility for CAP payment administration, due on 1 April 2001, the Agriculture Committee of the previous Parliament took oral evidence from him in February 2001.⁹ CAPP, by then renamed the "Rural Payments Agency", was established on 16 October 2001. It is now the single accredited paying agency responsible for CAP schemes in England (and for some United Kingdom-wide schemes) and is

¹ For a full list, see <http://www.defra.gov.uk/corporate/agencies.asp>

² Most recently in Environment, Food and Rural Affairs Committee, Second Report of Session 2002–03, *Annual Report of the Committee 2002*, HC 269, para 9.

³ Environment, Food and Rural Affairs Committee, Second Report of Session 2001–02, *The Countryside Agency*, HC 386.

⁴ Environment, Food and Rural Affairs Committee Press Notice of 24 July 2002.

⁵ Environment, Food and Rural Affairs Committee Press Notice of 16 December 2002.

⁶ Agriculture Committee, Tenth Report of Session 1999–2000, *Regional Service Centres*, HC 509–I, para 1.

⁷ Ministry of Agriculture, Fisheries and Food, the Intervention Board and the Forestry Commission, *Departmental Report 2001*, Cm 5113, March 2001, p 120, para 18.2..

⁸ HC Deb, 24 July 2000, col 473W.

⁹ Agriculture Committee, Minutes of Evidence of Session 2000–01, *The CAP Payments Agency*, HC 231.

responsible for spending more than £2 billion each year.¹⁰ The Agency's Annual Report and Accounts for its first year, 2001–02, were published in November 2002.¹¹

THE RURAL PAYMENTS AGENCY

The Rural Payments Agency (RPA) is the paying agency responsible for all Common Agricultural Policy (CAP) schemes in England and for certain CAP schemes throughout the United Kingdom. The RPA was formed on 16 October 2001 when it took over the payment functions of the Regional Service Group of Defra and the Intervention Board.

The RPA's **Mission Statement** is:

“To be a customer focused organisation that pays valid Common Agricultural Policy claims accurately and on time.”

Payments are made under CAP schemes to about 80,000 farm businesses and 2,700 traders. The RPA also buys and sells produce as a way of supporting market prices for certain commodities; this is called intervention buying and selling. The Agency also funds paying agencies in Scotland, Wales and Northern Ireland. In total the RPA disbursed £2.7 billion in 2001–02.

HM Treasury funds the payments in the first instance. The RPA then claims most of the amount from the European Union's European Agricultural Guidance and Guarantee Fund (EAGGF).

The RPA has its Headquarters in Reading, and other offices in Carlisle, Exeter, Newcastle and Northallerton. There are also offices in Cambridge, Crewe and Nottingham (which will close in December 2004) and offices in Bristol and Worcester.

The average number of full-time equivalent employees in 2001–02 was 3,161.

The Change Programme

4. Under the Government's Spending Review 2000, £130 million of ring-fenced funding was provided to “streamline and modernise the system of administering claims under CAP”.¹² To achieve this within a certain timeframe a “Change Programme” was initiated on 1 April 2001, the aims of which are to:

- ensure 95% electronic delivery capability for CAP schemes by 2004, with the facility for electronic submission of claims for all schemes;
- reduce the cost of CAP administration and the risk of disallowance;
- reduce the average time taken by a claimant to complete a claim for CAP payment;
- pay all valid claims submitted electronically within 2 weeks of the start of the payment window (or 3 weeks from the date of receipt where no payment window exists); and
- improve the levels of staff and customer satisfaction, measured in annual surveys, by 5% per annum.¹³

¹⁰ Ev 1, para. 1

¹¹ Rural Payments Agency, Annual Report and Accounts 2001–02, HC (2001–02) 1197.

¹² Ev 1, para 4

¹³ See Rural Payments Agency website, *Change Programme Background*, www.rpa.gov.uk.

5. Defra's memorandum of November 2002 states that "the Change Programme remains on schedule for completion by the end of 2004".¹⁴ According to the RPA's Annual Report "it will be 2005 before all the new systems and structures are in place and the benefits the new Agency will bring . . . can be fully realised".¹⁵ As well as permitting electronic delivery of the RPA's services, it is envisaged that the Programme will allow Defra to deliver savings of £35.9 million per annum from 2005/06, of which £10 million is accounted for by reduced employment costs.¹⁶ The relevant Public Service Agreement target for Defra under Spending Review 2000 was to "achieve a reduction of 10% in the unit cost of administering CAP payments by March 2004, and 95% electronic service delivery capability for such payments by March 2004".¹⁷ This has since been put back by a year as part of Spending Review 2002 because of staff being diverted to help deal with the outbreak of foot and mouth disease in 2001.¹⁸

6. New procurement projects in civil central Government are subject to Gateway Reviews by the Office of Government Commerce (OGC). The Gateway Process examines a project at critical stages in its lifecycle in order to provide assurance that it can progress successfully to the next stage.¹⁹ The OGC accordingly began a review of the Agency's Change Programme reporting at the Gateway 1 stage in March 2001. While this report confirmed that the Programme could move to the next stage, the review team also assessed it as "high risk".²⁰ Following approval at the third Gateway in January 2003,²¹ the RPA signed a £35 million, seven-year contract with the management consultant and technology services company, Accenture, to develop the systems necessary to bring the Programme to fruition.²²

7. The Chief Executive of the RPA, Johnston McNeill, described the OGC's Gateway 3 report as "very, very positive" and was "very pleased with the supplier [Accenture] that we have on board".²³ **The importance of the new IT system cannot be exaggerated: it will facilitate all of the activities of the Agency. In recent years there have been major problems with some new large-scale Government IT projects. Given the scale of the Change Programme and the consequences of failure, we hope that the management team is right in their belief that the Change Programme will be a success. Defra should monitor the progress of the Programme to ensure that the timetable for its implementation is adhered to and that it represents good value for money.**

Late Payments

8. Two of the Agency's key performance targets listed in the Annual Report relate to the processing of claims:

- to process at least 96.14% of valid IACS claims by value within the EU deadline; and

¹⁴ Ev 3, para 19

¹⁵ Rural Payments Agency, Annual Report and Accounts 2001–02, HC (2001–02) 1197, p 44.

¹⁶ Department for Environment, Food and Rural Affairs, Autumn Performance Report 2002, Cm 5698, published 27 November 2002, p 22; Rural Payments Agency, Annual Report and Accounts 2001–02, HC (2001–02) 1197, p44.

¹⁷ Department for Environment, Food and Rural Affairs, DEFRA Departmental Report 2002, Cm5422, May 2002, p 46.

¹⁸ Department for Environment, Food and Rural Affairs, Autumn Performance Report 2002, Cm 5698, published 27 November 2002, p 22.

¹⁹ See OGC website www.ogc.gov.uk.

²⁰ Department for Environment, Food and Rural Affairs, *CAP Payments Agency Gateway 1 Review Report*, 23 March 2001, p 4.

²¹ Q 85

²² See Rural Payments Agency press notice, *RPA and Accenture Working Together To Improve CAP Service Delivery*, RPA 04/03, dated 31 January 2003.

²³ Q 85

- to process at least 98% of valid CAP claims within ministerial deadlines and all claims within the set EU Commission deadlines or in their absence 60 days.²⁴

Neither of the above targets was met in 2001–02 due to “a combination of industrial action, causing late AAPS (Arable Area Payments Scheme) payments, relocation of resources in response to the FMD outbreak and the introduction of the LW(D)S (Livestock Welfare (Disposal) Scheme)”.²⁵ According to the National Farmers’ Union “payments arrive erratically and are frequently late . . . Particularly serious problems occurred with both the 2001–02 arable payments and the 2001 bovine payments”.²⁶

Bovine Scheme Payments

9. The Integrated Administration and Control System (IACS) is the European Union’s expenditure control mechanism for making payments under the Common Agricultural Policy (CAP). Farmers who want to claim payment under IACS are required to submit application forms for each applicable scheme. Difficulties have arisen in the United Kingdom as a result of a requirement under European legislation to cross-check all bovine subsidy information gleaned from IACS forms against the Cattle Tracing System (CTS) database, which is run by the British Cattle Movement Service (BCMS), and which was “designed primarily to meet animal health policy objectives”.²⁷ No cross-checks could be made in 2000 because the CTS was not completed until the end of January 2001. During 2002 the RPA decided not to apply cross-checks as they knew they would find animals missing on the CTS and hoped to persuade the European Commission by substituting other controls.²⁸

10. When the Commission insisted that the cross-checks be made the RPA experienced “difficulties in making 2001 bovine scheme payments principally as a result of discrepancies identified between claimed animals and data notified by producers to the British Cattle Movement Service”.²⁹ The “enormous number of anomalies” revealed by the checks needed to be investigated which led to delays in payment.³⁰ According to the annex to the memorandum submitted by Defra in November 2002, these discrepancies arose “because of the failure by cattle keepers to notify the CTS when animals are born, die or are moved”.³¹ However, in his oral evidence to us Mr McNeill conceded “that on reflection this is more administrative error on our part than the farmers”.³² Efforts should be made to clarify the reasons for the difficulties experienced, so that past mistakes can be learnt from.

11. As a result of these difficulties 19% of unpenalised claims for 2001–02 were paid after their deadline of 30 June 2002.³³ In addition farmers were penalised where they were deemed to have failed to update information on the CTS.³⁴ In a letter from one such farmer, Mr Read, attention is drawn to the sheer complexity of the rules of registration governing the CTS and the IACS system.³⁵ The United Kingdom will also incur a “disallowance”, which is a financial penalty imposed on a Member State by the Commission when it identifies control weaknesses in the operation of the IACS system. The Commission has decided to impose a disallowance figure of £14.346 million on the

²⁴ Rural Payments Agency, Annual Report and Accounts 2001–02, HC (2001–02) 1197, p 38.

²⁵ Rural Payments Agency, Annual Report and Accounts 2001–02, HC (2001–02) 1197, p 40.

²⁶ Ev 36, para 5

²⁷ Ev 7, para 1; Ev 37, para 14

²⁸ Q 22

²⁹ Ev 8, para 2

³⁰ Q 22

³¹ Ev 7, para 1

³² Q 55

³³ HC Deb, 25 November 2002, col 53W.

³⁴ Q 34

³⁵ Ev 38

United Kingdom in respect of bovine schemes for the financial year 2000.³⁶ This is a high penalty.

12. The RPA has since made efforts to improve the situation. In December 2002, it announced a review of penalties applied as a result of cross-checks with the Cattle Tracing System in relation to 2001 bovine claims, and undertook automatically to reconsider all relevant claims. Compensation will be paid in the form of interest for late payments.³⁷ In his evidence Mr McNeill wondered “whether it might be more appropriate if [the BCMS] were to be a part of the Rural Payments Agency; after all we are very heavily reliant upon it, it is extremely important”.³⁸ The Government has subsequently announced that the RPA and BCMS would merge from 1 April 2003.³⁹ The merger would, it said, enable both organisations to learn from one another, and would mean that a “single point of customer contact” would be provided.

13. However, there is still immediate cause for concern. According to recent media reports, nearly 100,000 claims for advance payments under the 2002 bovine schemes were still awaiting approval five months after the payment window opened on 16 October last year. Furthermore, only about a quarter of suckler cow advance payments had been approved by 12 March.⁴⁰ The timetable in both cases requires that balance payments commence in April and are completed by the end of June.⁴¹ In the supplementary memorandum submitted by Defra in January 2003, the RPA identified problems with the suckler cow premium IT system as it was “old, inflexible, at the end of its useful life and extremely difficult to maintain”, but had no plans to redevelop it because “it would not represent good value for money to do so now with the redevelopment of RPA IT systems about to start”.⁴²

14. Although the late payment of bovine scheme subsidies in the last 2 years is partly due to factors not necessarily within the control of the RPA, such as the demands made on staff by the outbreak of foot and mouth disease, it is clear that a major cause of delay was administrative error following the introduction of cross-checks with the Cattle Tracing System. We recommend that the Agency continue to improve liaison between the Cattle Tracing System and the IACS system: for that reason, we welcome the merger of the British Cattle Movement Service with the RPA. Given that the RPA is already undergoing a major Change Programme, this further re-organisation will require good and careful management. Late payment on bovine systems looks likely to continue until the new IT system is up and running. Therefore, we also recommend that the RPA solve the problems of late payment on bovine schemes as a matter of urgency.

Customer Relations

Customer Satisfaction

15. Payments in respect of the various CAP schemes are made from the European Agricultural Guidance and Guarantee Fund (EAGGF).⁴³ The RPA must make payments in

³⁶ See RPA Memorandum “Disallowance Explained”, Ev 22; Commission Decision (2003/102/EC) of 14 February 2003, published in the Official Journal of the European Union, 15 February 2003.

³⁷ Rural Payments Agency press notice, *RPA Announces Review of 2001 Penalties*, RPA 52/02, dated 17 December 2002; circular sent to Producers in December 2002, CCR 1(12/02).

³⁸ Q 35

³⁹ HC Deb, 31 March 2003, 48WS

⁴⁰ “Beefing about late pay”, *Farmers Guardian*, 14 March 2003, front page.

⁴¹ See *Beef Special Premium Scheme* at www.defra.gov.uk/farm/schemes/beef.htm and *Suckler Cow Premium Scheme* at www.defra.gov.uk/farm/schemes/suckler.htm.

⁴² Ev 9, para 9.

⁴³ RPA, Annual Report and Accounts 2001–02, HC (2001–02) 1197, p 5.

line with rules laid down by the European Commission.⁴⁴ Therefore while the RPA is a provider to farmers, it must also act as the agent of the Commission. In short the RPA might be argued to have two customers whose differing needs can cause tension: yet in its Mission Statement the RPA declares its intention to be a “customer focused organisation”.⁴⁵ In his evidence to the Committee the Chief Executive defined customers as “individuals, organisations or intermediaries outside of central government who submit forms to RPA in relation to CAP schemes” and distinguished them from stakeholders who were “organisations or individuals indirectly affected by or interested in ensuring that RPA delivers efficient and effective services/benefits to its customers”.⁴⁶ According to this point of view farmers are customers, the European Commission and HM Treasury are stakeholders.⁴⁷ There is an argument that in trying to address both the national interest and the interests of the Commission there needs to be greater accountability in the way CAP schemes operate. Too often in the past the real purpose of the payment of these subsidies to farmers has been frustrated by bureaucracy and inefficiency.

16. One of the targets in the Agency’s corporate plan is to improve customer satisfaction by 5%.⁴⁸ The RPA undertook a customer satisfaction survey in the summer of 2002.⁴⁹ The result was a “satisfaction index” of 71.7% which put the RPA in the bottom 17% of companies and public sector organisations.⁵⁰ **We are encouraged by the fact that the RPA identifies farmers and other recipients as its ‘customers’, but we are concerned at the poor result of the recent customer survey. We hope that the RPA is not expecting the electronic delivery of services to be a panacea; it is essential that at every stage of the implementation of the Change Programme the Agency ensures that the focus on customers is maintained.**

IACS forms

17. Farmers who want to claim payment under IACS are required to submit application forms for each applicable scheme. The Agriculture Committee of the last Parliament noted that “United Kingdom farmers regard the forms as a considerable burden in terms of the time taken to complete them, their complexity and the administrative process to which they are subjected”.⁵¹ The Agriculture Committee looked at the forms used by other countries and was impressed by the simplicity and helpfulness of the Irish form,⁵² which remains a good model to work towards. In evidence to this inquiry, Mr McNeill accepted that the IACS form was “particularly complex” and that “farmers would find it very difficult”.⁵³ However, the RPA did “hope to improve the situation . . . We are trying to enable [farmers] to make application by using e-technology, on-line, where intelligent systems will inform them if they are putting the correct information on the forms”.⁵⁴ Now that Accenture had been contracted to develop the new IT system, the RPA’s Operations Director, Hugh MacKinnon, said that “the new forms ought to arise as a result of the system development . . . It should be next year”.⁵⁵ **We welcome the prospect that new means of electronic delivery will simplify IACS forms. However, we are not yet fully persuaded that the RPA is treating simplification of such forms with sufficient urgency. The matter should now be given the highest priority.**

⁴⁴ Ev 22, para 1

⁴⁵ RPA, Annual Report and Accounts 2001–02, HC (2001–02) 1197, p 3.

⁴⁶ Q 2

⁴⁷ Q 11

⁴⁸ Q 4

⁴⁹ See Rural Payments Agency website, www.rpa.gov.uk/rpa/custfocus.nsf.

⁵⁰ Q 4

⁵¹ Agriculture Committee, Seventh Report of Session 2000–01, *The Implementation of IACS in the European Union*, HC 150-I, pp xxii–xxiii, paras 1, 2.

⁵² *The Implementation of IACS in the European Union*, para.38

⁵³ Q 74

⁵⁴ Q 12

⁵⁵ Q 83

Staffing

18. The payment of claims was affected by industrial action in 2001-02. Although this dispute was between trade unions and Defra as a whole, the RPA was targeted because of the visible effect the action would have.⁵⁶ It is worth noting that the Agency will be able to negotiate pay deals independently of the Department from 2004.⁵⁷ However, as part of the Change Programme, the Agency is to undergo a reduction in staff from “about 3,400 down to just under 2,000”.⁵⁸ Moreover, in its evidence, the NFU identified a “chronic problem with the recruitment and retention of qualified staff”. Farmers had heard from staff in RPA regional offices of “casual staff being recruited and trained, only to be laid off again because funding has run out”.⁵⁹

19. The Chief Executive, Mr McNeill, took the view that now that the pay dispute was over the RPA had “probably the best industrial relations of any organisation” he had ever worked with.⁶⁰ **Nevertheless, any organisation facing such reductions in staff will inevitably face difficulties. Good information is needed and early decisions about staffing issues need to be taken. It will be important to retain experienced and qualified staff. We recommend that the RPA provide details of developments in this area in its Annual Report, and in particular the breakdown of staffing between permanent and casual employees.**

Conclusions

20. **The Rural Payments Agency is a new organisation which has faced early problems. Some of these were not of the Agency’s making while others, such as the complexity of IACS forms and low customer satisfaction, indicate areas which need prompt attention if the payment of CAP claims is to move into a new era of efficiency as promised. We welcome the steps which have been taken, and we urge the Agency to do more. We hope that the RPA will at all times keep its customers — farmers — uppermost in its thoughts.**

21. **The Committee will maintain its interest in the work of the Rural Payments Agency. We look forward to receiving its Annual Reports and updates on progress in the implementation of the Change Programme.**

List of Conclusions and Recommendations

1. **The importance of the new IT system cannot be exaggerated: it will facilitate all of the activities of the Agency. In recent years there have been major problems with some new large-scale Government IT projects. Given the scale of the Change Programme and the consequences of failure, we hope that the management team is right in their belief that the Change Programme will be a success. Defra should monitor the progress of the Programme to ensure that the timetable for its implementation is adhered to and that it represents good value for money (paragraph 7).**
2. **Although the late payment of bovine scheme subsidies in the last 2 years is partly due to factors not necessarily within the control of the RPA, such as the demands made on staff by the outbreak of foot and mouth disease, it is clear that a major cause of delay was administrative error following the**

⁵⁶ Q 50

⁵⁷ Q 61

⁵⁸ Q 65

⁵⁹ Ev 36, para 6

⁶⁰ Q 86

introduction of cross-checks with the Cattle Tracing System. We recommend that the Agency continue to improve liaison between the Cattle Tracing System and the IACS system: for that reason, we welcome the merger of the British Cattle Movement Service with the RPA. Given that the RPA is already undergoing a major Change Programme, this further re-organisation will require good and careful management. Late payment on bovine systems looks likely to continue until the new IT system is up and running. Therefore, we also recommend that the RPA solve the problems of late payment on bovine schemes as a matter of urgency (paragraph 14).

- 3. We are encouraged by the fact that the RPA identifies farmers and other recipients as its 'customers', but we are concerned at the poor result of the recent customer survey. We hope that the RPA is not expecting the electronic delivery of services to be a panacea; it is essential that at every stage of the implementation of the Change Programme the Agency ensures that the focus on customers is maintained (paragraph 16).**
- 4. We welcome the prospect that new means of electronic delivery will simplify IACS forms. However, we are not yet fully persuaded that the RPA is treating simplification of such forms with sufficient urgency. The matter should now be given the highest priority (paragraph 17).**
- 5. Nevertheless, any organisation facing such reductions in staff will inevitably face difficulties. Good information is needed and early decisions about staffing issues need to be taken. It will be important to retain experienced and qualified staff. We recommend that the RPA provide details of developments in this area in its Annual Report, and in particular the breakdown of staffing between permanent and casual employees (paragraph 19).**
- 6. The Rural Payments Agency is a new organisation which has faced early problems. Some of these were not of the Agency's making while others, such as the complexity of IACS forms and low customer satisfaction, indicate areas which need prompt attention if the payment of CAP claims is to move into a new era of efficiency as promised. We welcome the steps which have been taken, and we urge the Agency to do more. We hope that the RPA will at all times keep its customers — farmers — uppermost in its thoughts (paragraph 20).**
- 7. The Committee will maintain its interest in the work of the Rural Payments Agency. We look forward to receiving its Annual Reports and updates on progress in the implementation of the Change Programme (paragraph 21).**

PROCEEDINGS OF THE COMMITTEE RELATING TO THE REPORT

WEDNESDAY 2 APRIL 2003

Members present:

Mr David Curry, in the Chair

Mr David Borrow	Diana Organ
Mr David Drew	Mrs Gillian Shephard
Patrick Hall	Alan Simpson
Mr Michael Jack	David Taylor
Mr Mark Lazarowicz	Paddy Tipping
Mr David Lepper	Mr Bill Wiggin
Mr Austin Mitchell	

The Committee deliberated.

Draft Report [*Rural Payments Agency*], proposed by Mr Tipping, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 21 read and agreed to.

Resolved, That the Report be the Sixth Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Several Papers were ordered to be appended to the Minutes of Evidence.

Ordered, That the Appendices to the Minutes of Evidence taken before the Rural Payments Agency Sub-committee be reported to the House.—(*The Chairman*).

The Committee further deliberated.

* * *

[Adjourned till Wednesday 30 April at a quarter past Two o'clock.]

LIST OF WITNESSES

Evidence taken on Tuesday 28 January 2003

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RURAL PAYMENTS AGENCY

Mr Johnston McNeill, Mr Hugh Mackinnon and Mr Alex Kerr Ev 9

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MINUTES OF EVIDENCE

TAKEN BEFORE THE ENVIRONMENT, FOOD AND RURAL AFFAIRS COMMITTEE: RURAL
PAYMENTS AGENCY SUB-COMMITTEE

TUESDAY 28 JANUARY 2003

Members present:

Paddy Tipping, in the Chair

Mr Colin Breed
Mr David Drew

Mrs Gillian Shephard
Mr Bill Wiggin

Memorandum submitted by the Department for Environment, Food and Rural Affairs (L 2)

EXECUTIVE SUMMARY

1. RPA was successfully established on 16 October 2001 as an executive agency of the Department for Environment, Food and Rural Affairs (Defra). It was formed by the merger of the Regional Services Group (RSG) of Defra and the Intervention Board (IB). It is now the single accredited Paying Agency responsible for CAP Schemes in England and for certain schemes throughout the UK. It accounts for £2.02 billion—some 75% of CAP expenditure in the UK.

2. From the date of accreditation on 16 October 2001 until the abolition of IB on 15 November 2001, RPA operated as a joint enterprise between IB and Defra.

3. Johnston McNeill, RPA's Chief Executive, assumed responsibility for CAP payment administration from 1 April 2001 which enabled RPA to be fully functional by its formal establishment date. By the time of launch the relationship with core Defra was well defined and was understood by both parties.

4. The establishment of RPA forms a key part of the restructuring of Defra and is an important element in the Department's response to the Modernising Government agenda. The SR2000 settlement provided Ring Fenced funding of £130 million to streamline and modernise the system of administering claims under CAP. A Business Case for the RPA Change Programme provides for a substantial investment in new systems so that significant savings in processing costs will be realised by 2005. The timing of the delivery of the main efficiency savings is reflected in Defra's value for money PSA target. The Change Programme is on schedule for completion by December 2004. RPA plans to deliver benefits of £23.7 million per annum against the 2000–01 baseline cost, which will be achieved by pay, accommodation and IT savings.

5. RPA has taken a number of significant steps to ensure that it will be in a position to deliver the financial and non-financial benefits outlined its Business Case once its new IT systems are delivered. These include structural changes, use of the European Foundation for Quality Management Excellence Model (EFQM) to baseline business performance and process improvement. A programme of "quick wins" is being used to make early savings and introduce some examples of the technology and work practices that will be delivered through the Change Programme.

How well established is the Rural Payments Agency's role as the agency responsible for all CAP payment functions, and to what extent its relationship with the Department for Environment, Food and Rural Affairs has been clearly understood by both the Agency and the Department.

FIRST YEAR'S PERFORMANCE

6. RPA was successfully launched on 16 October 2001 with a clear purpose and identity as an Executive Agency of Defra and an EU accredited Paying Agency. The first year of operations was severely affected by the impact of FMD, which required the transfer of resources to disease control duties, and a campaign of industrial action involving ex-RSC staff in response to the 2001 Defra pay offer. Despite these challenges RPA achieved 16 out of 18 of its key performance targets.

7. RPA has experienced a number of difficulties in making 2001 bovine scheme payments principally as a result of disparities in claimed animals revealed when implementing the EU requirement to cross check claims against the CTS database held by Defra's British Cattle Movement Service (BCMS).

8. At the time of writing, a number of issues remain outstanding, which are being investigated. We have received a number of representations, particularly from the National Farmers' Union (NFU). These concerns are being actively pursued with the NFU and other industry representatives.

9. RPA will be better placed to update the Committee once these investigations have been completed. Additional briefing will follow.

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ACCREDITATION

10. Although both IB and the Defra Paying Agency had been accredited separately as Paying Agencies under EU legislation, EC Regulation 1663/95 requires all “new” agencies to undergo a formal process for accreditation. By agreement with the Commission, a pre-accreditation audit of RPA was undertaken in August 2001. The audit concentrated on areas of risk but no major weaknesses in controls were identified. The UK Competent Authority (UK Agriculture Ministers) granted RPA full accreditation status as a UK Paying Agency. The formal Instrument of Accreditation was signed-off to coincide with RPA’s launch on 16 October 2001.

GOVERNANCE

11. RPA’s governance arrangements ensure that it operates with direction and engagement from key Defra officials and external stakeholders.

12. RPA’s Ownership Board (OB) provides a forum for the RPA management team to be advised and supported by Defra and others with a major interest in RPA. The OB is chaired by Brian Bender and meets quarterly. Its membership includes representatives from each of the Devolved Administrations and three external representatives with extensive business, industry, academic and e-government expertise. The OB is soon to benefit from the appointment of a second farmer representative nominated by the NFU.

13. RPA’s Audit Committee is an advisory body to the Chief Executive, chaired by Professor Georges Selim who is also a non-executive member of the OB. It advises in respect of RPA’s accounts, internal control systems and internal and external audit. In particular, the Committee reviews the practices and standards adopted in RPA’s internal and external financial statements and reports to ensure that they reflect generally accepted practice. It also ensures that RPA’s Internal Audit Unit fulfils appropriate standards.

14. The Audit Committee’s main focus, to date, has been in relation to the governance issues resulting from the merger of the two former organisations, the progress of the Change Programme and the development of risk management procedures.

15. The Regional Overview Board (ROB) has oversight of progress with the restructuring of the Department’s regional operations, including RPA’s Change Programme. It is also chaired by Brian Bender and brings together RPA and Defra officials together with the NAO and Treasury. The Select Committee receives regular reports from Defra on the overarching Restructuring Programme.

ORGANISATIONAL STRUCTURE

16. RPA has made considerable progress to ensure that it is well positioned to maintain business continuity and the successful delivery of the Change Programme. In particular, RPA has:

- 16.1. established a new corporate structure comprising of one corporate centre and four main processing sites. The management of downsizing sites has operated successfully through a pairing arrangement with a permanent site;
- 16.2. completed the appointment of a strong senior management team that includes operational managers with experience in Defra, IB and the private sector. The majority of the team were appointed in April 2001 to manage the joint organisation and subsequently RPA;
- 16.3. established a Central Scheme Management Unit (CSMU) to provide overarching controls and accreditation standards across all operational sites. The CSMU works alongside Scheme Management Units (SMU) at each of the four main processing sites to provide vertical structures for scheme implementation and management;
- 16.4. established a national Inspectorate for compliance monitoring across all operational areas;
- 16.5. taken operations out of Reading, Bristol and Worcester (ex-RSC sites) as a first stage in the rationalisation project. Further operational work is being transferred out of RPA’s Reading Corporate Centre in support of an agreed organisational design. RPA’s office in Newcastle was the first to be transformed into a multi-processing site in September 2001 and is undertaking both ex-IB work and worked transferred from the Worcester ex-RSC site. The Exeter office followed suite when it took on Milk Quotas work from Reading in May 2002 and School Milk in July 2002.

POLICY ADVICE

17. RPA provides Defra with operational advice in support of CAP policy formation and is represented on various DEFRA policy groups, including the CAP Reform Group, Agriculture Steering Group of Regulation of Agriculture and the e-Business Steering Committee. RPA has also supported the Permanent Secretary at the Public Accounts Committee and gave evidence to the Anderson Enquiry.

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What costs were associated with the creation of the Rural Payments Agency, and what savings have resulted from it, and in particular whether the creation of the Agency has brought real cuts in bureaucracy and a more efficient and speedy system (and whether target times for claims are being achieved).

LAUNCH COSTS

18. The direct cost of establishing RPA was £386,065. This covered the costs of rebranding, customer mailing and launch preparations.

RPA BUSINESS CASE AND CHANGE PROGRAMME

19. The cost of modernising CAP Payments by RPA has been well documented, as indeed have the savings that will result from it. The Business Case for the Change Programme that supported the release of £130 million Ring Fenced funding under SR2000 was updated in September 2001 and will be refined further prior to RPA undergoing the Office of Government Commerce (OGC) Gateway 3 Review in December 2002. The Change Programme remains on schedule for completion by the end of 2004.

20. RPA plans to deliver benefits of £23.7 million per annum against the 2000–01 baseline cost, which will be achieved by re-engineering business processes to eliminate duplication and deliver productivity improvements and by pay, accommodation and IT savings.

21. RPA has undertaken an exercise to define the baseline costs for 2000–01 against which future efficiency savings will be measured. These have been included as comparative expenditure figures in RPA's 2001–02 audited annual accounts. The baseline costs were drawn from:

- 21.1. the 2000–01 audited resource accounts for the Intervention Board; and
- 21.2. extracts from Defra's Resource Accounting Management Information System (RAMIS) representing the direct expenditure of the former RSG and the associated overheads of Defra corporate divisions.

22. For the baseline year (2000–01), the cost of administering the CAP attributable to RPA was £138.9 million. This represents slightly under 7% of the value of CAP payments made.

23. By 2005, RPA will form the cornerstone of Defra's strategy for achieving electronic service delivery. Other benefits that RPA will deliver include:

- 23.1. producing a single customer interface to handle queries and provide advice to customers;
- 23.2. providing a high quality service, processing claims efficiently, accurately and promptly, allowing customers to track claims and payments progress;
- 23.3. reducing the "claim to cheque" time for CAP payments claimants, with a two-week payment window for electronically submitted claims within the payment periods prescribed in the regulations;
- 23.4. reducing the risk of disallowance and the burden of inspections; and
- 23.5. improving overall levels of staff and customer satisfaction.

24. OGC has recognised the commitment from RPA's senior team to ensure the successful delivery of the Change Programme which is also demonstrated across the organisation. Johnston McNeill is Senior Responsible Owner (SRO) for the Change Programme and is supported by a Programme Director (Simon Vry, Business Development Director) and the other RPA Directors in their role as Programme Board.

25. To ensure that the benefits are realised, the Change Programme is managed in line with OGC "Managing Successful Programmes" best practice, and all projects within the Change Programme are managed in accordance with PRINCE 2 methodology. In addition, given the level of risk associated with the Change Programme it is subject to OGC Gateway Reviews. To date, RPA has successfully negotiated Gateway 1 and 2 Reviews, which confirmed the business case and the procurement strategy. OGC was recently invited to conduct an informal health check of progress, which confirmed that the Programme was on track to achieve OGC Gateway 3 in December 2002.

26. Good progress is being made with the main procurement of new business and IS systems. The OJEC notice was issued in October 2001, and the project is on track to let the contract following OGC Gateway 3 in December 2002. Once the contract has been let, the chosen supplier will begin to build the claims processing system in early 2003. The first phase will go live at the beginning of 2004, with the remaining phases being implemented during 2004.

27. Given the scope of the changes, a number of projects have already been initiated within the Change Programme. These projects are being progressed under existing framework agreements to ensure that the essential underlying systems are in place prior to the main contract being let for the development of the new business and IS systems. The projects that have been initiated since April 2001 include:

- 27.1. Finance and Accounting System (FAS) Project that will deliver a single Finance and Accounting system.

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- 27.2. Rural Land Register Project that will develop a Rural Land Register holding digital maps of IACS holdings in England.
- 27.3. Customer Registration Project that will provide a single Defra-wide customer register to replace the numerous customer databases that exist today.
- 27.4. Customer Relationship Management (CRM) Project that has defined RPA's CRM strategy and is currently implementing the necessary business changes to ensure that RPA is a customer focused organisation.
- 27.5. Customer Service Centre Project that has established a prototype Customer Service Centre (CSC) in Newcastle. Following the successful testing of the CSC, phase 1 is now going live with farmers in Hereford and Worcester, initially for two specific schemes.
- 27.6. Knowledge Management (KM) Project that will enhance RPA's Intranet and internal information systems.

QUICK WINS

28. Although RPA's principle focus is on realising the benefits from the Change Programme, work continues with a number of "quick win" projects. Some examples being:

- 28.1. RPA has successfully introduced the capability to electronically input data from abattoirs and slaughterhouses for the Over Thirty Month Scheme (OTMS). This initiative was taken in order to reduce staff costs and give economical improvements in the effectiveness of a legacy system. The development rapidly provided a solution to import electronic data securely from OTMS scheme abattoir operators to RPA. Manual data entry was replaced with automated processes. The finished system provides an Internet upload and feedback solution for abattoirs, verifies validity of imported data files and inputs and processes verified data through the OTMS claims system. The benefits anticipated due to this implementation include costs savings through releasing 23 staff from scheme posts and extending useful life of a legacy system. Time taken to input the data has been reduced to less than 20 seconds per animal claimed for, with the possibility of continuous processing. Reductions in data input errors are also expected. The development will deliver savings on running costs which will exceed development costs by the end of its second year. There are possibilities for extending this solution to other areas of the business beyond application to the OTMS scheme.
- 28.2. One such area where a similar technical solution will be employed is that concerning the automated payment processing of export refund claims. This initiative will build upon an existing project which provides for the electronic transfer of export refund claims and licensing data between the RPA and HM Customs and Excise. That project is being funded by the Treasury under the Invest To Save Programme and is due to go live at the end of April 2003. Automated payment processing within RPA will:
 - 28.2.1. maintain the existing business rules and logic embedded in the current computer system that has been developed over many years;
 - 28.2.2. allow a large proportion of claims to be processed straight through to payment with the minimum need for manual intervention;
 - 28.2.3. ensure that all control and accreditation requirements continue to be met;
 - 28.2.4. go live shortly after April 2003 to coincide with the introduction of the electronic links to Customs and should yield savings in the region of 22 posts. It will also bring benefits to our customers by reducing paperwork and speeding up the entire claim and payment process.
- 28.3. RPA has delivered elements of its Finance and Accounting project that is integrating the dual systems (ex-Defra and ex-IB) to provide a base for renewal (Oracle 11i re-implementation). Two rationalisation stages have been applied, to date, that have driven up the quality of service delivery and reduced costs. The physical transfer of Defra's ledger work from Resource Management Division was achieved seven months ahead of schedule followed by local integration of a dual system. The final stage will be to re-implement Oracle Financials using a re-engineered process and redesigned accounts structure by June 2003. This system will provide the keystone of RPA's Paying Agency functions.
- 28.4. RPA has responded to the potential risk of postal strike action by successfully increasing the number of farmers who receive their payment by BACS (8,500 new recipients, 21% of the target group). RPA has also shortened the ex-RSC payment cycle by two days and has a planned further two-day reduction through rationalising the overall file handling processes.
- 28.5. RPA continued with a commitment made by Defra to provide a target group of farmers with the capability to submit their IACS forms electronically. Whilst it is recognised that e-IACS is operating on legacy systems, some valuable lessons have been learnt for future service delivery. For example, an improvement in development is the facility to complete the submission off-line for later

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transmission. A helpdesk handled 3628 calls and emails during its four-month existence. The design of the web-based form worked well. 45% more submissions were made this year than last, or 12% of the target customer base made up of the 10,000 claimants who initially expressed an interest in 2001. Over 400 submissions were made by Agents and more than 2000 RPA customers are now registered with the Government Gateway. All submissions were automatically transferred to RPA's systems with no manual re-keying.

29. Any shorter term cost savings have been more difficult to procure. In particular, some of the savings have been offset by additional work on Cattle Tracing System (CTS) and IACS/Agri-Environmental cross checks and the loss of experienced staff following office closures.

TARGET TIMES

30. As far as target times for claims are concerned, a number of difficult issues have arisen because of the impact of foot and mouth disease and the significant industrial action taken by civil service unions in the autumn of 2001. The industrial action within Defra was largely concentrated on RPA's main processing sites with the result that the payment deadline for Arable Area Payments Scheme (AAPS) was not achieved. RPA continues to monitor the union's response to the current Defra pay negotiations and should further action be taken has contingency plans aimed at minimising the impact on service delivery. As referred to in paragraph 7, RPA has experienced a number of difficulties in making 2001 bovine payments. Investigations are still ongoing in respect of these, and we are keeping the NFU and other industry representations apprised of developments.

31. RPA has introduced a comprehensive risk based approach to managing known and potential CAP disallowance (reduction in EU re-imbursement) imposed by the EU to address accounting corrections or for non-compliance with scheme rules. RPA's open approach to reporting this risk has been welcomed by the OB and Audit Committee. RPA has also had some encouraging responses on disallowance cases from the EU through early identification of issues (for example, the impact of industrial action on AAPS payments) and through conciliation and bi-lateral discussions.

32. However given that legacy systems are still in operation there are limits to savings that can be undertaken in the mid-term. The main success has been in shortening lines of communication between the customer and the administration. In this context, the establishment of the Industry Forum and Experts Groups for the various areas of operation have been of significance. This has allowed much closer and quicker dialogue with the industry and promoted greater understanding and more efficient operation. This has been particularly the case for the development of scheme literature and correspondence.

33. Another major change has been the introduction of an independent appeals system. This has been welcomed by the industry.

What staff training has been put in place, and what other administrative steps have been taken to bring together the functions of the Regional Service Centres and the Intervention Board?

34. RPA has put a great deal of emphasis on creating a unified workforce with a new culture and identity. This has involved changes to working practices and systems. As part of a RPA's Quality Strategy, the European Foundation for Quality Management (EFQM) Model has been used to assess the performance of the business. A balanced scorecard approach to business planning has ensured an equal focus on the four business areas—customers, finance, operational services and processes and people.

35. RPA has retained Investors in People status having undertaken two in-year assessments since its creation. This demonstrates that RPA has made good progress to unify its working practices. However, there are improvement areas that will be addressed before the assessor's next visit in six months' time.

STAFF TRAINING

36. A comprehensive range of skills-based and developmental training products is provided for staff at each RPA site to support business aims. Learning and development in RPA is centrally managed from Reading HQ by the Learning and Development Unit (LDU) and locally at other RPA Operational sites by Learning and Development Co-ordinators (LDCs).

37. The LDU is committed to ensuring that all RPA staff have equality of opportunity as far as learning and development issues are concerned and that a consistent approach is taken across the whole organisation. In addition, it is important that all training, whether job-specific or developmental, is linked to the RPA's Customer Relationship Management (CRM) strategy and accords with the principles of the EFQM. To this end, a Learning and Development Group (LDG) has been formed, consisting of representatives from each of the sites, to be the vehicle through which training and development policy is delivered. The LDG will also act as a test-bed and a resource for identifying training needs and developing policy.

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38. Some actions to develop RPA's approach to staff training include:

- 38.1. preparation of a corporate training plan to meet identified training needs so as to enable staff to deliver an effective and efficient customer focused service and meet the business needs of the Agency;
- 38.2. development of a Learning Management System (LMS) on the RPA Intranet, available to all staff, enabling people to see their training records and book courses on-line;
- 38.3. design of First Line Manager (FLM) programme to include and promote the new RPA culture of openness and transparency. Since the creation of RPA, eight programmes have been delivered at various locations to a mix of delegates from all the sites. Four more are planned to be delivered over the next six months;
- 38.4. Learning and Development Co-ordinators (LDCs) on all sites have been identifying training needs from Personal Development Plans (PDPs), which are in place for all staff and arranging relevant training, with both in-house delivery and the use of external providers;
- 38.5. development of a pilot Leadership Development Programme, again linked to promoting the new RPA culture;
- 38.6. rolling out of "Diversity" training delivered by the Agency's Equal Opportunities Group to all managers;
- 38.7. providing all staff with access via the Intranet to the European Computer Driving Licence (ECDL) to allow them to demonstrate their competence in computer skills. This is a widely recognised qualification that will help RPA staff with their current jobs and enhance career prospects;
- 38.8. providing all staff with access via the Intranet to the Ashridge Virtual Learning Centre as a self-study resource; and
- 38.9. establishing Open Learning Centres at all sites.

OTHER ADMINISTRATIVE STEPS

E-mail links

39. All RPA staff at its five main sites now use a single e-mail system and can link to the main RPA shared computer drive. This means that it is now possible for these members of staff to share and view calendars, files and other features of the Outlook and Microsoft Exchange system. Work is now underway to connect the staff at downsizing sites, which are shared with RDS to the single e-mail system. Although this is only an interim arrangement, pending the creation of a full RPA-wide network, it is now allowing better communication between the various RPA locations.

SERVICES PROVIDED BY DEFRA, INFORMATION TECHNOLOGY DIRECTORATE (ITD)

40. RPA has established a Service Level Agreement (SLA) that defines a formal customer-supplier relationship between RPA as user and ITD as provider of IT services to RPA, which did not exist between former RSCs and ITD.

41. The definition of the SLA was based on:

- 41.1. analysis of service requirements;
- 41.2. assessment of the service quality delivered by ITD previously;
- 41.3. definition of services and improved service levels required by RPA users;
- 41.4. setting up an "intelligent customer" role within RPA to manage the SLA;
- 41.5. definition of new and improved processes and procedures to manage services; and
- 41.6. setting up new processes for budget management and control.

42. RPA has gained substantial qualitative benefits from implementing the SLA, in terms of improved quality of service, more responsiveness and better control. The implementation of formal programme management and budgetary control also resulted in savings of over £1.5 million on original budget bids for 2001-02, which were re-directed to other priority IT projects within RPA.

43. In addition, having set up an Intelligent Customer role for managing an external service provider, RPA has gained valuable experience in setting up similar structures for managing the RPA Change Programme suppliers.

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PAY AND HR RECORDS

44. RPA has taken over responsibility for Pay processing, Travel and Subsistence claims and personnel records for all RPA staff. Further developments are planned in terms of an automated self-service HR system. This will lead to greater efficiencies in this area.

APPRAISAL AND PERFORMANCE MANAGEMENT

45. To address and unify staff appraisal, RPA has developed a single staff reporting system that will assess staff against a framework of core competencies and the achievement of objectives; full implementation is planned for April 2003.

TERMS AND CONDITIONS/INDUSTRIAL RELATIONS

46. Work is progressing well on the development and negotiation of harmonised terms and conditions of service for staff and an important part of this effort is being directed to the production of a unified RPA Staff Handbook. RPA has also established its own Industrial Relations Whitley structure and has good relations with its local trade union representatives.

ACCOMMODATION/FACILITIES MANAGEMENT (FM)

47. RPA's Estate Management functions are now managed by Defra's Building and Estate Management Division (BEMD), negating the need for the former IB estate management contract. RPA HQ has joined the Defra professional FM contract for the south-east thereby achieving economies of scale in procuring major and some minor FM services. The Agency is also developing its long-term accommodation strategy to take into account the expected reductions in staff numbers and new ways of working.

HEALTH AND SAFETY

48. An RPA Health and Safety Committee has been established to cover health and safety issues across RPA. Its membership is drawn from the Trade Union and Official Sides. A network of health and safety contacts has been set up across RPA sites and regular meetings are being held.

7 November 2002

Annex**Late Payments under the 2001 IACS (Integrated Administration Control System) Bovine Subsidy Schemes**

BACKGROUND

1. Member States are required under European legislation to cross-check all bovine subsidy information against their cattle tracing databases. The Rural Payments Agency (RPA) has accordingly cross-checked claimed animals against the British Cattle Movement Service (BCMS) Cattle Tracing System (CTS). All cross-checks have been completed and a large number of discrepancies have been discovered. Many of these arise because of the failure by cattle keepers to notify the CTS when animals are born, die or are moved. This has resulted in RPA being unable to meet the statutory payment deadlines in all cases on bovine schemes, although every effort is being made to ensure all outstanding payments are made as soon as possible.

2. The Commission have indicated that all cross-checks should be carried out prior to payment as they view these checks as a key control to the fund. Consequently RPA must act on the findings of the cross-checks before payment is made. Failure to do so would inevitably result in disallowance.

KEY POINTS TO NOTE

- RPA has paid the bulk of this money already over 95% of entitlement across the schemes has now been paid.
- All cross-checks were completed some time ago and the majority of claims that did not contain a discrepancy were paid by the deadline of 30 June.
- The delay in paying the remaining claims is due to the difficulty in resolving the thousands of animals claimed for which there is no match on the CTS and for which there is no basis for payment until the discrepancy has been resolved.

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- Every effort is being made to ensure payments are released as soon as possible—teams around the country are working long hours, including a twilight shift at the British Cattle Movement Service (BCMS) at Workington made up of staff from RPA and BCMS
- The requirement to carry out cross-checks to ensure that only valid subsidies are paid out is set out in Article 6(2)(b) and 6(2)(c) of the Commission Regulation 3887/92 as amended by 2801/99.
- Failure to undertake such checks for the last scheme year (2000) resulted in proposed disallowance for England alone of between £14–15 million. It is almost certain that disallowance would be at a significantly higher rate this year if checks were not completed prior to making balance payments.

POSITION IN RELATION TO 2002 ADVANCE PAYMENTS

- The application of penalties is different for 2002 following changes to the EU regulation. Advances on 2002 claims that do not contain penalty animals have already started. For claims to qualify for advance payments they must have completed their retention period, be free from error and have successfully passed the CTS cross-check. The progress of preparations for payment release is being kept under constant review and industry will be kept informed of any changes to the plan.
- The gradual cleansing of the CTS database as a result of the 2001 cross-checks should improve the position for 2002. Cross-checks of 2002 claims have already started and preliminary indications are that less anomalies are being discovered.

Supplementary memorandum submitted by the Department for Environment, Food and Rural Affairs (L 2a)

FIRST YEAR'S PERFORMANCE

1. The original Memorandum was submitted to the Select Committee in the early part of November, in which a commitment was made to provide the Committee with additional briefing in respect of bovine scheme payments.

2. As noted in paragraph 7 of the original Memorandum, RPA experienced a number of difficulties in making 2001 bovine scheme payments principally as a result of discrepancies identified between claimed animals and data notified by producers to the British Cattle Movement Service (BCMS). These discrepancies were revealed when implementing the EU requirement to cross-check claims against the CTS database held by BCMS. These checks resulted in delays to some payments and a significant number of farmers having penalties applied to their subsidy payments.

3. Since the original Memorandum significant progress has been made. By working closely with the NFU (and other industry representatives), taking into account the advice and views of the Commission, we have reviewed the various categories of penalties. A number of categories have been identified where a review of the earlier decision to penalise is now judged to be appropriate. It has also been agreed that there will be a review panel made up from representatives from RPA and the NFU, who will examine and review any difficult or contentious cases. Full details of the review were announced on 20 December and RPA are now beginning to work through the cases affected.

4. RPA will make compensation payments in the form of interest on those claims paid in full after the statutory deadline. This has been announced to the industry and payments will be made after the review of penalties has been completed.

5. Following on from the discussions with the NFU and the review of penalties there will be a lessons learned report produced. RPA are working closely with BCMS to ensure future scheme payments are not delayed. We have also undertaken to work with BCMS, other GB paying agencies and industry representatives to improve the quality of data captured by BCMS and to look at ways of simplifying and improving the CTS database.

ADDITIONAL BRIEFING—ACHIEVEMENT OF TARGET TIMES FOR CLAIMS: 2002 SCHEME PAYMENTS

6. Payments of Sheep Annual Premium (SAPS) to sheep producers and Arable Area Payments (AAPS) to arable producers were made in record time. The SAPS payment window opened on 16 October and 97% of payments worth £88 million were made in the first few days. Payment of the Less Favoured Area supplement began on 4 November and 98% of those qualifying received their supplementary payment amounting to £13.5 million by the end of November.

7. On AAPS, the payment window for the main scheme opened on 16 November and within the first three weeks payments to over 80% of producers had been made, worth in excess of £700 million. This honoured a commitment made to industry representatives to enhance performance in this area and has been well received.

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8. The payment window for advances on the main bovine subsidy schemes opened on 16 October. Because of ongoing discussions with the NFU on how to avoid a recurrence of the problems encountered with 2001 bovine claims, a decision was taken in consultation with the NFU to pay only clean claims, ie those not containing an ineligible animal. This was designed to avoid rejecting animals and imposing penalties on claims, which might subsequently be overturned following the review of 2001 bovine claims. Payment of “unclean” 2002 claims will commence on 31 January. This should allow producers time to ensure that the details on the Cattle Tracing System agree with those on their claim forms and will not give rise to loss of subsidy and the application of penalties, because of a failure to comply with the identification and registration regulations.

9. There are however particular problems with the suckler cow premium IT system where payments did not commence until end December. The suckler cow IT system is old, inflexible, at the end of its useful life and extremely difficult to maintain. Were it not for the RPA Change Programme the system would have to be redeveloped, but it would not represent good value for money to do so now with the redevelopment of RPA IT systems about to start.

Rural Payments Agency

January 2003

Examination of Witnesses

MR JOHNSTON MCNEILL, Chief Executive, MR HUGH MACKINNON, Operations Director and MR ALEX KERR, Finance Director, Rural Payments Agency, examined.

Chairman

1. Welcome to you all, Mr McNeill, the Chief Executive, Mr Kerr, the Finance Director and Mr MacKinnon, the Operations Director. Thank you very much for coming. We would like to use the next couple of hours to chat with you about how the organisation is going, a new organisation with a mission statement which puts customers right at the beginning. Your mission statement is to be a customer focussed organisation which pays valid CAP claims accurately on time. How are you dealing with those two distinct parts?

(Mr McNeill) It is important that farmers do complete the forms in the proper manner and follow the procedures that are required. We are scrutinised by the Commission and others who take a dim view if we do not deal with poor applications in the proper manner and can disallow us and cost the Treasury substantial penalties if that is the case. We say that we require valid forms in that we do our best to keep our customer base informed of what is required. We spend a lot of time on our guidance notes which are issued with the claim forms. On our part we undertake to process those forms as accurately and as quickly as possible.

2. Who are your customers? Is it the people who are claiming? Is the Commission a customer in a way?

(Mr McNeill) We have spent some time as a new organisation giving this careful thought. We have defined customers in our customer relationship management strategy as individuals, organisations or intermediaries outside of central government who submit forms to RPA in relation to CAP (Common Agricultural Policy) schemes and we distinguish that from our stakeholders who we identify as those organisations or individuals indirectly affected by or interested in ensuring that RPA delivers efficient and effective services/benefits to its customers. We have tried not to take the view that all parties are customers and focussed on those that actually receive payments from the Rural Payments Agency.

3. You have one NFU member on your board. Are you about to appoint another or have you just appointed another?

(Mr McNeill) Yes. The NFU have recommended another appointment which has now been made.

4. You have a variety of consumer groups, forums, that you talk to.

(Mr McNeill) Yes. We think we have worked very hard to get involved with the thinking of the NFU and other stakeholders in the organisation. We have the Industry Forum which has now been established, which meets quarterly. As you say, we have external representation on the Board plus officials from the National Farmers' Union and others. And also from the meat industry and other interested bodies. We have a number of special groups which assist us in the development of briefing and instructions for farmers and other customers in terms of the various schemes; we work closely with them. We think we have spent quite a lot of time and effort trying to get close to our customers. In the summer we undertook a customer satisfaction survey, the first for the Rural Payments Agency. It was undertaken for us by an independent body and followed best practice. There was an RPA satisfaction index of 71.7%. That might sound quite good, but in actual fact it is not very good. Our understanding is that that would place the Rural Payments Agency in the bottom 17% of companies and public sector organisations. We have work to do. One of our performance targets in our corporate plan is to improve customer satisfaction by 5%. We intend to work towards that. We will be undertaking another customer satisfaction survey this year to monitor the progress.

Mr Breed

5. I am not very happy about that at all, to be honest. I think your mission statement at the present time is nothing like what you have written there. It is more to do with: We are an EU Treasury based

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focussed organisation that attempts to pay our customers if they manage to dot every “i” and cross every “t” on the most complicated form we can devise, at some time in the future according to our timetable and not theirs. That is what the reality is. If you get back to that we might be able to have some sort of sensible discussion on that. To talk about increasing by 5%, that means it is going to be something in the region of about ten or fifteen years to get something like reasonable customer satisfaction. I think you are extremely complacent in what we have heard so far, bearing in mind the extraordinary amount of correspondence I get from some of my farmers and I know you get from an awful lot of other MP’s as well.

(*Mr McNeill*) I can understand why a number of our customers would have that perspective. We do take a robust line in terms of accurate information being supplied; it is a requirement of the schemes.

6. There are several schemes that I have written about and have taken them up in Europe and they have said that is a false interpretation.

(*Mr McNeill*) I can only say that we work very closely with the Commission and the various auditors that we have visiting us on a regular basis. The advice that they give us is that the approach we are taking is the correct one.

7. The last time I wrote I had a letter back which consisted of two sentences. The last sentence said that if I did not like it go and complain to the Commission. Having gone to the Commission we are now waiting for their recommendation. I think that is an abdication of your responsibilities.

(*Mr McNeill*) All I can say is that we have, on a number of instances, had the case where someone has approached a member of Parliament or someone has approached the Commission, been give some—usually off the record—advice, but when we look at the audit reports that we receive we are advised that the actions we are taking are appropriate and correct and are what is required to avoid significant disallowance. That is obviously, as you say, an interest of this organisation. I do not think the Treasury or anyone else would be very pleased if we incurred what could be a very substantial disallowance.

8. You are an EU and Treasury based focussed organisation.

(*Mr McNeill*) They are significant stakeholders in the organisation.

9. So the mission statement is totally wrong then.

(*Mr McNeill*) No. We are customer focussed.

10. But your customers are the Treasury and the EU.

(*Mr McNeill*) As I said earlier, we define those as stakeholders as opposed to customers.

11. So when you talk about customers you really mean stakeholders, and as far as the stakeholders are concerned that includes the EU and the Treasury.

(*Mr McNeill*) No. We define the EU and the Treasury as stakeholders as opposed to customers. Our customers are those to whom we make payments; we do not make payments to the Treasury.

12. I do not want to labour the point, but I think you get the drift.

(*Mr McNeill*) I understand your concern and I can assure you we are not complacent. I see all the MP’s correspondence, the minister’s correspondence relating to concerns about payments. I take a personal interest in checking through the responses that we are making and have challenged a number in asking if we really have to take such a robust line. Audit advice from the Commission and others is that we have to take that approach. We do hope to improve the situation. We are trying to make the process much more user friendly to our customers. We are trying to enable them to make application by using e-technology, on-line, where intelligent systems will inform them if they are putting the correct information into the forms. We do hope by that, by a customer service centre and by other means to improve the service that we offer. That is our intention.

Mr Drew

13. To what extent is there a real—or is it a perceived—problem with fraud?

(*Mr McNeill*) You will be aware from recent attendances at the Public Accounts Committee in regard to the Bowden case that instances of fraud do occur despite our best efforts and the amount of checking that we put in place. We have some four hundred inspectors who undertake inspections on farms and on traders’ premises. We have a counter-fraud compliance unit which is heavily involved in checking out concerns regarding applications and potential fraud. We have a significant number of staff involved in checking, again following the best practice and the advice we receive from the Commission, the European Court of Auditors and others, who feel that that is the appropriate action to take. We know the committee—certainly the Public Accounts Committee—was very concerned if we were doing enough to check applications for the CAP payments.

14. When will your new annual report be out? We have the report for the year before last.

(*Mr McNeill*) Our financial year ends on 31 March. As soon as we have our accounts cleared we would hope to publish.

(*Mr Kerr*) The expectation is that we will have the new report for 2002–03 by September next year, which is in advance of the normal departmental timescale.

15. In that report is it possible for you to put a figure on how much fraud there has been? Clearly here there are no figures.

(*Mr McNeill*) We can certainly identify the number of successful interventions that we have made in terms of checks, inspections, legal cases taken and the results of that. We could certainly provide some information on that if the Committee felt it would be appropriate. In terms of the amount of fraud that takes place, obviously we do not necessarily know where we have instances of fraud; we can only do our best using our significant investment in terms of inspections and the use of counter-fraud compliance unit staff to investigate every area of concern. It could well be that we still have instances of fraud that we are not aware of.

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16. Other parts of government and government agencies are able to put a figure on the level of fraud, particularly Housing Benefit, the issue of the benefits migration at the Post Office. They may be notional figures, but they actually put a figure to it. One of the problems with the Common Agricultural Policy is that we deal with such colossal numbers that when we hear about the fraud it sounds in its own way to be huge. I would like to have a feel for the degree to which it is a problem in this country by some numerical calculation, but also how that compares to our other sister states and what sort of measure by which we are actually more successful or as successful or less successful. Is that going to be possible?

(Mr Kerr) It is possible. Each year we present a report on fraud to Treasury and there is no doubt that we could extract information from that in some form which would inform you about the level of fraud. Information is available, it is a question of presenting it in a way that is digestible.

17. Did you get those figures from this? Could you give me some idea of what level of fraud we are talking about?

(Mr Kerr) We have not analysed fraud as such. Last year, for example, the report that we put up was nil return to Treasury on specific fraud. That does not mean to say that there is not a case load of suspected or potential fraud underway. The Bowden case was one case in particular where there is a specific example of that. I do not have information readily to hand that could get you an interpretation—

18. I think it would be very useful if you could write to the Committee so that we get some feel about the level of the problem. Presumably that is one of the things the Public Accounts Committee picked up, that you have to be more definitive in exactly what the level of fraud was, and obviously that involves doing something of a calculation on it to know the level to which you have to chase people.

(Mr McNeill) I think it is best if we were to write to you with the information we have. We have taken on board one of the other recommendations of the Public Accounts Committee and that is to discuss with colleagues in the Benefits Agency their reaction to fraud and how they deal with that. We should try to learn from the best practice that they use.

Chairman: Earlier on we had a fairly robust exchange about relationships with stakeholders. Mr McNeill you mentioned disallowance. Could we now move on to the area of disallowance.

Mrs Shephard

19. The Rural Payments Agency did not meet the EC targets on some of the bovine schemes and the Arable Area Payments Scheme—as you know—during 2001 and 2002. Have the EC yet proposed a disallowance amount related to the Arable Area Payment Scheme for 2001 and is there any comparison between the potential disallowance between 2001–02 compared to previous years? Could you answer that first, then I am going to ask what you are doing about it.

(Mr McNeill) If I could just touch on the issue of disallowance and then I will ask my colleague Hugh, who is the Operations Director, to touch on the specific issues of the Bovine schemes. We have put in place now a comprehensive disallowance risk register where we have logged all of the areas which we believe may result in potential disallowance. We have identified how that has come about and what action we are taking. I am very happy to make that available to the Committee for your perusal. We think that is quite a major step forward for the Agency compared to the previous Intervention Board and the Regional Service Centres. Hugh, could you move on to the Bovine schemes?

(Mr MacKinnon) For the year 2000, which was the year in which the cattle tracing system database at the British Cattle Movement Service was not fully populated, we could not cross-check the bovine claims in that year with the cattle tracing system.

Chairman

20. What do you mean by “not fully populated”? Could you just explain that to us?

(Mr MacKinnon) All of the bovines in the national herd were not on it at that stage. The UK had been building the database up through recording births and movements, but there were some animals which were still on the holdings but at that point had not been captured.

Mrs Shephard

21. Can you give us any idea of the sort of scales of how many were on and how many were off? In other words, what was the level of inaccuracy? After all, that is rather important.

(Mr MacKinnon) This was not so much inaccuracy; there had been no effort to collect the details of the older animals. That was done during the year 2000 and completed by the end of 2001.

22. When you say “there had been no effort” that is nicely impersonal. By whom?

(Mr MacKinnon) The Ministry of Agriculture had enacted legislation—or was responsible for legislation at that time—which required all new births to go on the database and all movements to be recorded on the database. During 2000 it enacted legislation to require the older animals also to be registered. That exercise was completed by the end of January 2001. During 2002, had we cross-checked subsidy claims with the database we would have found animals missing which were the subject of subsidy but were not on the database. We took the line for that year that we would operate other controls—farm inspection visits and so forth—and we took the position with the European Commission that we had effective controls at least equivalent to that required by cross-checking and certainly equivalent to what we had done in earlier years and which was acceptable in those years. However, the Commission took the line that there was a regulatory requirement to cross-check through a fully operational database and they are proposing very substantial disallowance for that year. Currently the figure is about £14 million. That was for the year 2000. In order to avoid that in 2001—the claims we

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were working on last year—we did cross-check the claims before making the balance payment. It led to the delays which you will obviously have read about and heard about from your constituents. The first round of checking of the 2001 claims led to an enormous number of anomalies between the claim details which came to us and the animals on the database. That cross-checking was completed within the time required for the scheme timetable in the regulation, but because it threw up so many anomalies payments were late as a result as we had to check out where those differences arose.

23. You are saying that the incompleteness of the record—because some records had not been required by legislation—has led to the disallowance.

(Mr MacKinnon) Yes, indeed.

24. Who is actually accountable for this? Is it Defra? Is it the Government for failing to legislate and therefore causing itself—or yourselves or Britain—to be fined?

(Mr MacKinnon) The disallowance is born on the RPA's vote for which Johnston is the additional accounting officer. The principal accounting officer is Brian Bender of Defra.

Chairman

25. Was there not a matching up of the Cattle Tracing System and your payments? Clearly that was going to happen. You told us earlier on, Mr MacKinnon, that in a sense the Commission insisted upon it which was a sort of voice from across the water. Why was that not anticipated?

(Mr MacKinnon) The database was set up in the wake of the BSE crisis clearly for animal and public health purposes. It was further along the track that the Commission took the view that because the database existed, because it was required to be complete for all bovines, it was common sense that one should check the subsidy claims against it, to check the validity of the claims; and also a good spur to producers to make the proper notification to the database.

Mrs Shephard

26. It seems deeply unfair that the legislative machinery was not in place to enable you to collect the information for which you are now being penalised. Have I got that right?

(Mr McNeill) I am not sure whether unfair decisions were taken at the time.

27. You do know. Either the Government decided to legislate to enable you to collect this information or it did not and you just said that they did not. And you are being penalised.

(Mr McNeill) I am not sure we can comment on that. The decision was taken and the legislation was put in place as it was. I do not think it is for us to comment. It was before the time of this Agency. Those decisions were taken; we were not involved in the discussions. What we are aware of is that it has resulted in concerns about the disallowance and, has been mentioned, I am responsible for that

disallowance and have to explain how it has come about and do our best to mitigate and reduce that disallowance.

28. What is your total budget then? What effect will this £14 million reduction have?

(Mr McNeill) My understanding is that the final disallowance figure has not been agreed. We are still debating with the Commission what that figure will be. I mentioned our disallowance risk register earlier and we have identified that. There were earlier views taken by the Commission which were much more significant than that, but we have managed to persuade them in negotiations that those were not appropriate. That process is not finalised as yet.

29. Do you directly negotiate with the Commission?

(Mr McNeill) Yes, it is part of the RPA's role to liaise with the Commission, to argue our case as to how things have been managed and try to reduce their proposals regarding disallowances.

30. Is it your impression that your counterparts elsewhere in Europe perhaps have similar problems that involved them being disallowed for different reasons?

(Mr MacKinnon) Yes. Their databases are in different states of completeness, but it is our understanding from the Commission—although we have not seen anything published—that some other member states have significant amounts of disallowance for the same broad area of lack of control (as the Commission sees it).

(Mr McNeill) To keep the level of disallowance to the minimum is a performance target for the Rural Payments Agency. I think it is very much in our interests to achieve that target, not just to save the public purse, and to argue and negotiate as robustly as we can with the Commission.

31. Yes, but I do think there is a difference in principle between being disallowed because, say, you have been inefficient or hopeless or on strike for a year, and not having the machinery in place to allow you to do so.

(Mr McNeill) Certainly we are aware of that but we are part of the Defra family and it is for us to work with our colleagues to do our best to reduce the impact. I am sure you will touch on the concerns about difficulties we have had this year in terms of bovine payments and we have been working very closely with the British Cattle Movement Service and Defra to try to resolve those difficulties. In this case it is really not going to take us very far in terms of our customers as to who is responsible for this in terms of the delays in payment and, as a consequence, disallowance. We take the view that we are part of the Defra organisation and have to work with them to get this ironed out.

Mrs Shephard: It is very much the business of this Committee as to whether or not Defra performs efficiently and provides its agencies with the relevant tools of the trade. That is why we are pressing you on this. It is of extreme relevance to the work we are doing.

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Chairman

32. Can we just check one point, Mr MacKinnon. You negotiate disallowance with the Commission. I am not entirely sure whether it is you who is doing that or Mr Bender or a mixture of both.

(Mr MacKinnon) I will talk you through the process. The Commission comes on an audit in the UK; it is a fairly thorough audit in which they look at our accounts within the RPA. They then go out on field visits so they look at farms, the quality of farming, records and so forth. They look at our inspection. At the end of that they reach conclusions about the standard of our controls, how effective they are, how widespread they are, whether we have covered the right ground. They propose some correction to our accounts. At that stage we normally write back to them and make our defence about this issue which, I can assure you, always happens. We are usually then invited to a bi-lateral meeting with the Commission which, typically, I would lead the RPA delegation in that. We would take and present further evidence that we had to show that we had done more than they were saying or that the effect of what we had done and they had noted was greater than they were saying. Usually, as a result of that, the Commission will then come up with a different figure. We hope it would be a lower figure. If, at that point, we are still unhappy with it, we can go to a further body, a conciliation body, and present our case separately. The Commission would also present their case. They would come up with a report at the end. I have to say that in that process we very often got a sympathetic report from the conciliation body but the Commission is not bound to act on the conciliation body's report. The only other port of call at that stage is the European Court of Justice. So at the point the Commission reach their decision they will simply take the money out of our account by docking it from the next payment which they make to us.

Mr Breed

33. Let us go back to these inaccurate records, as such. How many of the inaccurate records were due to the failure to put the correct data onto your database? Failure of your inputs rather than a failure of farmers to provide you with the information.

(Mr MacKinnon) Are you talking about the Cattle Tracing System?

34. Yes.

(Mr MacKinnon) It is not strictly our database now; it is the British Cattle Movement Service, a Defra database. I think it is very difficult to say to what extent each has contributed. It is something that, in the process of reviewing all the penalties which applied to 2001 claims, is something that we are finding out a lot more about now. I would not like to draw a general conclusion. Certainly I can tell you that both things are happening. There are very poor notifications from farmers and also there are errors on the database. I can certainly say that both of those things are true. Where we have discovered in the review of penalties that the error is in the database or in the handling of the notification from the farmers, we have undertaken to put that right, to restore penalties and where the payment was late as a result

we have paid compensation to producers. All of the industry has that firm undertaking from us. We work very closely with the National Farmers' Union in agreeing the procedures that we would use for the review. But we need to go on from there. We need to find ways of making the database more accurate, more responsive, so that it is up-to-date and one can call on it at any moment in time and know that one is getting an accurate picture.

35. You are not saying that your particular data inputs were any less efficient than a normal organisation? In other words, the failures of input—there are always going to be failures in input—that you experienced on your side were no higher than would normally be expected in many organisations inputting data?

(Mr McNeill) The British Cattle Movement Service is not part of the Rural Payments Agency. I am sure you are aware of that. We do work very, very closely with them. They have been under a lot of pressure for some time, as you are possibly aware, in terms of setting up what is one of the largest databases in Europe, dealing with millions of movements every year. They have had a number of difficulties, not least of all a large number of their staff being deflected to deal with foot and mouth disease duties and running a call centre with some two or three hundred staff to assist farmers during that difficult time. They have had many pressures upon them and I think they would accept—were they here—that their database is not as accurate as they would wish it to be. There are a number of difficulties with it. Substantial investments are being made to improve the database, not least of all its operational platform; the current platform is not robust enough to deal with the demands upon it. There is a substantial plan of investments to be made to improve the database, its operation and the accuracy of the data. We spent a lot of time and effort with the British Cattle Movement Service this summer. We had large numbers of our staff working with them to clean up the database to enable us to engage in these cross-checks and to get as many claims through as possible. The department is now considering the best place for the future governance of the British Cattle Movement Service and a decision will be made in the very near future as to whether it might be more appropriate if it were to be a part of the Rural Payments Agency; after all we are very heavily reliant upon it, it is extremely important. Our customers are pretty unconcerned whether it is a problem with the database which is one part of Defra, or a problem with us. We feel, certainly from the RPA side, that working with our colleagues in BCMS we could improve things and improve the service to our customers. We would like to be more involved in the day to day management of BCMS and to improve standards.

Chairman

36. When you say you are working closely with them, what does that entail? How often do you meet the head of the British Cattle Movement Service?

(Mr McNeill) The British Cattle Movement Service is part of Defra. Hugh sits on a steering committee which has actually been working with the

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management of the BCMS—the director of BCMS and others—to improve the operation. That is a very useful step forward, but we feel that there is more that could be done and that is something which is under consideration by the department at this time.

37. In a sense some of the hostility you are getting is because you are reliant upon poor data from an organisation for which you are not responsible.

(Mr McNeill) You could say that.

38. I have said it.

(Mr McNeill) It is irrelevant to the customers. At the end of the day Defra, as an organisation, we as an Agency have not got our act together as perhaps we should and we have been considering ways to improve that for next year. As Hugh has said, this year we have had a substantial number of our staff working with BCMS and doing cross-checks and trying to clean up the database. We have spent an inordinate amount of management time in trying to find the best way ahead and to improve this. From our customers' perspective I think they are pretty unconcerned as to who it is.

39. The reality is that you are not satisfied with the present situation and you know it can be improved. It will require, you think, some organisation.

(Mr McNeill) We think it is a good fit with our operation. We are heavily reliant for all our bovine payments on that database and we feel that is important.

Mr Breed

40. In response to the Chairman a little while ago talking about negotiating with EU you said that you go in and argue the case robustly and demonstrate to them that you are doing all that you can. Therefore, it seems to me that as part of that evidence you have to provide to them it would be significant to say that you have found x number of cases of farmers and you have made x number of penalties and you are clamping down; so you are fighting the case by using the farmers who have fallen foul of the system as part of your evidence. Who actually fights the farmers' case when they come to you?

(Mr McNeill) I can assure you the National Farmers' Union is probably the lead player in defending the position of the farmers. There have been meetings at the highest level with the NFU who have expressed grave concern about the situation and have robustly defended their members' positions. We could spend a lot of time on this particular issue and the detail of it, but there have been hours of discussions with the Farmers' Union representatives at all levels. They have been very, very forceful in bringing it home to us that they believe that where we have not got the data in many cases it was because things had been lost in the post, a farmer has claimed twelve passports were in an envelope but only ten were received. There are a number of points put forward which we have carefully considered and I think we have now taken a very understanding view that we think is defensible with the Commission and taking on board the representations made, my understanding is—following negotiations that Hugh had with

NFU representatives—they are reasonably content that we have put in place a procedure which addresses their concerns. The final mechanism is an appeals panel where the farmers' particular cases—the residue, the very small number—will be carefully considered by a combined group of farming representatives and civil servants and a view will be taken as to whether or not a particular case stands.

41. The fact that you have the opportunity to appeal to a conciliatory body, you would support the fact of an appeals body or ombudsman so that a farmer has the same opportunity that you have. You can go to a conciliatory body in Europe; he will be able to go to an appeals panel. When is that going to be introduced?

(Mr McNeill) We have already put in place the IACS appeal system and we intend to put in an appeal system now for non IACS based on the principles I have outlined. We have a number of representatives from the farming community who sit in on our IACS appeal panel along with the chairman. They are proving very effective. We have had a relatively small number of cases so far, but that mechanism has been put in place as part of our customer service.

Mr Drew

42. What happens to disallowance? The £14 million that is not claimed or gets penalised. What does the EU do with that?

(Mr MacKinnon) It certainly reduces the call on the community budget and, I suppose, to some extent, it probably reflects back in member states' contributions. I could not track it from where we sit.

43. There is no incentive not to get things wrong. There is not incentivisation to improve things the following year?

(Mr MacKinnon) There are some horrendous complexities in the UK contribution which I would not attempt to try to get my head round here but because of the substantial rebate which the UK has secured the actual effect of disallowance is scaled down. We get some of that money back anyway in terms of a rebate. In our accounts it looks pound for pound so that if we lose £14 million in our accounts it would show disallowance of £14 million. To us it is a very significant sum.

44. I am not sure I understand that. Is it really £14 million? Or is it a cash transfer? Or is money that farmers do not have in their pockets?

(Mr MacKinnon) Very often it would not have affected the farmer as such. It would be the exchequer, not the farmer. Because the Commission's argument normally is the that the effectiveness of our control was across the board; there is no way we can go and get that back from individual farmers. They have simply said, the "level of your inspection, the quality of your inspection was not good enough across the board and we are going to disallow you 2% of your expenditure". We cannot then go and get 2% back from every farmer.

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No way could we show that any individual farmer has contributed to that. If it was an invalid claim by a particular producer we would recover it.

Chairman

45. Can you just check out the scale of disallowance because I think you told us in 2000 it was £14 million on bovine schemes. Two thousand and one on bovine?

(Mr MacKinnon) We are at the end of the payment process—we have not finished it yet—so there is no figure for disallowance for 2001. Some years the Commission do not look at particular schemes; they are looking at other schemes. There is no way that one could look year on year on year. They may come back next year and look at bovine schemes and throw back to 2001 in doing so. The pattern is that the Commission inspects and then proposes disallowance.

46. At the moment there is no threat of disallowance for bovine 2001, but there could be.

(Mr MacKinnon) There is a threat to it because a number of the payments are being made late. We explained to the Commission what our difficulties were this year with late payments. We explained that cross-checking had delayed them. We asked for an extension to the period during which we could make the payments. We were allowed an extra two months. We have gone well beyond that two months. Following on from that period the amount that the community then reimburses reduces the more our delay occurs. There will be some loss in funding as a result of the delay. Not strictly disallowance in the penalty sense, but nevertheless it hurts as much.

47. Would you care to put a figure on that?

(Mr MacKinnon) We could not put a figure on it until the end. It scales up. It is 10% in the first month late and so on up.

48. Presumably, Mr Kerr, this is something you will keep an eye on.

(Mr Kerr) This year our forecast for total disallowance for that period is likely to be just slightly over point 5 of 1%. Our target for the year is 2%. We are well within that target area. There will always be a level of disallowance; it is almost inescapable, but it is at a level that we consider is as reasonable as can be at this particular point in time.

49. The big issue on disallowance now is Arable Area Payments.

(Mr MacKinnon) We paid 2002 claims well within the timescale. In fact it was a record year for paying Arable Area Claims. After the mess we got into in the earlier years because of industrial action we said to the farmers that we would re-profile the processing scheme so that we hit the payment window on 15 November last year with a very large proportion of the claims cleared for payment at that stage. We paid over 80% of the claims within the first three weeks of the window.

50. What about the previous year?

(Mr MacKinnon) In the previous year we were suffering industrial action by staff across Defra—which was heavily targeted on our offices because

they are front line offices, they are an obvious target for the unions—we again had the Commission's indulgence to be later than we would normally be, but we went well beyond that. We suffered disallowance on that. We did not suffer any disallowance in terms of the quality of our controls or the quality of our systems; it was simply the delay and that was occasioned simply by staff withdrawing their labour or working to rule or whatever.

51. What was the penalty?

(Mr MacKinnon) I do not have a figure with me. We can let you have the figure on that.

52. The figure in the press was £120 million.

(Mr MacKinnon) I would doubt that.

(Mr Kerr) We can confirm that figure.

(Mr MacKinnon) I cannot say it is wrong, but it does sound high.

53. It does sound high, yes. Will you write and let us know.

(Mr MacKinnon) Yes.

54. In the current year, the year you have just paid, you have done better because there has not been so much industrial action and there should be no disallowance.

(Mr McNeill) If I could just assure the Committee that we took every possible step and put in position what we thought were very good contingency plans to try to get past the industrial action and to improve performance. I am afraid it was just the wrong time; they hit us at a bad time. When Hugh says that the PCS union's action was very much focussed on RPA I can assure you it certainly was. They realised it was a tremendous impact on the department if they were to influence the payments department. Despite our best efforts I am afraid we were not able to make the timetables.

Mr Drew

55. I would like to look at the other side of this. One of the complaints of farmers is that when there is late payment they seek recompense from yourselves and you say you cannot do that. Can you clarify the situation. Are there such things as late payment recompense for farmers. If so, what form does it take? If not, why is that the case?

(Mr McNeill) Our position in terms of the industrial action and the AAPS payments was that that was legally constituted industrial action. Proper balloting had taken place and our legal advice was that as a consequence we were not liable for interest payments for the delay. That was legal advice that we had to follow. We were not able to make interest payments. Where we accept—and we have in a number of cases accepted—that it is due to administrative error on our part or difficulties on our part we will make interest payments. Following discussions with the NFU on the CTS cross-checks where we have accepted the arguments put forward by the NFU and particular cases from farmers, we have accepted that on reflection this is more administrative error on our part than the farmers and therefore we have agreed to pay interest payments. Where it is industrial action, legally constituted, the view was that we could not.

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56. The form that these late payment recompenses take, is it based on the overall sum that the farmer had not been paid? Or is it a grace and favour payment? What form does it take?

(Mr MacKinnon) Calculated as interest.

57. Statutory rate of interest?

(Mr MacKinnon) From the final date for making the payment within the regulatory period until when the payment is actually made, calculated at a rate of interest.

58. Is it the farmer who has to initiate the complaint or would it be done automatically?

(Mr MacKinnon) For 2001 bovine claims where we had announced that that would be paid, that would be paid automatically.

Chairman

59. What was the scale of that payment across the board?

(Mr MacKinnon) I have not got a figure with me, but it is not a difficult figure to come by.

60. Could you let us have that.

(Mr MacKinnon) Yes.

61. We have talked a bit about industrial action. I am not entirely sure who the staff are responsible to, the staff that you have inherited, the Defra staff. You run your own organisation. You have an industrial dispute going on which in a sense is beyond your control, can you take us through how this has been handled?

(Mr McNeill) The relationship is identified in the framework document for the agency. We have responsibility for all staff below senior civil service and have pay delegation. That is in the framework documentation and agreed. As part of the negotiations on the pay deal for 2001–02, we agreed with the department to resolve the dispute with PCS. We agreed we would not take up that delegation until 2004, allowing them some time for Defra to put right in the view of the PCS the inequalities that had risen with the creation of Defra and the bringing in of a number of DETR staff who were paid at the upper end of the pay scales, as opposed to the former MAFF staff who were paid at the lower end of the pay scales. We have not taken up that delegation as part of that agreement and so are still tied to the Defra pay deal, as we were this year. We will be tied to the Defra pay deal until the 2004–05 financial year. In terms of senior civil servants, of which we have eight in the whole of the Rural Payments Agency, they are the responsibility of Defra. There is no requirement for the Agency to manage them in terms of staff appraisals, pay, negotiations, et cetera.

62. Ultimately, in 2004, you will be running your own shop.

(Mr McNeill) Yes, that is the intention. We then would negotiate with the unions, we believe, on pay.

63. Would that be better than the present situation?

(Mr McNeill) The concern we have—as I think there is a concern growing across Government—is that the trade unions are taking a view now as to the legality of agencies negotiating pay in terms of

equal pay claims or, indeed, the variations that arise between departments with separate negotiations. Recent cases would seem to point to tribunals taking a view that perhaps this is not correct. I think the unions have a concern that they would not like to see this happen. Obviously that is why they asked for the dispensation until 2004–05. The way legal cases are going we will obviously watch carefully to see whether we can undertake negotiations. What we do see is that in 2004–05 we plan to roll out significant investments in new IT and new ways of working. We will have a workforce that has moved away from the current methods of operation (largely people based processing) and using substantial new systems. We will have, for example, a customer service centre and new areas of work for the organisation. I can see certain advantages in shaping our pay deal to actually suit the new organisation. That is an attraction. But at the same time we do not want to demotivate staff and have them thinking they are the poor relation of the department.

64. All this is slightly confusing. You have a big change programme which is costing £130 million.

(Mr McNeill) The total program is about £130 million. That includes substantial funding for redundancy costs and downsizing the organisation.

65. That clearly is going to have an impact on staffing. Could you just take us through the figures on that?

(Mr McNeill) The intention is that we move from the current number of about 3,400 down to just under 2,000. It is of that order and the redundancy payments for the staff who will leave the organisation is a major part of the £130 million funding made available by Treasury. We have already closed sites at Bristol and Worcester and plan to close the site at Cambridge later this summer.

66. But you are not your own boss on pay negotiations at the moment.

(Mr McNeill) Not until 2004–05, no.

67. This is quite a difficult conflict, is it not?

(Mr McNeill) Yes, but to resolve the industrial action the view was taken—and we agreed—that we would have to give up the right to have pay delegation.

Mr Drew

68. When we came up to see your predecessor organisation I think we were somewhat taken aback at the nature of the bureaucracy, but one of the points about having a number of offices round the country was that farmers like to come in person to actually hand their forms in and to get them checked, but not necessarily in great detail. Has that all gone now? It is now done by post, moving towards by computer. Is there no personal service any more?

(Mr McNeill) Our long term plan is to provide other channels for our customers to have access to us. As I have mentioned there is the Internet; they can fill in their forms with assistance from the customer services centre. We are trying to move away from the face to face contact which is

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expensive and has required a significant amount of offices throughout the country. During the foot and mouth disease epidemic our offices were closed and we discovered that many farmers—the majority of farmers—were very capable of making their applications without having that face to face contact. We felt this was an interesting experience. When we re-opened the offices we moved to more of a drop-in service where they could literally drop in their forms and were able to get the assurance that they had arrived and had been received. We intend to work with the NFU and others to ensure that we still provide a range of channels. The NFU are also conscious that a large number of farmers do now have Internet access. During the foot and mouth disease we were advised that farmers used that Internet ability to e-mail each other, to communicate when they could not move off their farms. They believe, from discussions we have had with them, that there is the possibility of a significant up-take. If we can provide a form on screen that comes filled in with as much information as we have—for example, in terms of bovine claims, if we can access the BCMS database and say, “This is what we understand you have” without a farmer having to sit and fill in perhaps two hundred, twelve digit cattle identification numbers on a form—so that they only have to check it and keep the amount of new input to the minimum and have the system smart enough (and this is part of our requirements and the contract we will be placing with suppliers) to prevent unnecessary or incorrect information going in, we think this will go a long way to addressing a number of the areas that have come forward which then have to be resolved by face to face contact or telephone calls. That is really the way we would like to go. We think, given the high level of farmers who have Internet access at this time, that that is possible. Our business case relies on 20% take-up of farmers and from then we plan to grow it by a number of strategies to improve take up with the farming community. There will always be the farmer who does not have a computer, who is not interested in technology, whatever, and we still have to continue a system where they can access us, get information and make their claims.

Chairman

69. If they cannot come to you, do you have people who go to them?

(Mr McNeill) That is a possibility. It could be that we have to work with the NFU or the livestock market to devise a system where we can actually arrive at a market on a certain day and offer some support to farmers when putting in claims. That is part of our take-up strategy. We need to work with the NFU and others to develop before we roll out in 2004–05.

Mr Breed

70. As a customer focussed organisation, how is it that there were 10,000 expressions of interest in Internet access and only 842 submitted electronically? Do you think that as a customer focussed organisation you have that right?

(Mr McNeill) I think it was a damned if you do and damned if you don't situation.

71. If you had 10,000 expressions and they all did it, that would be a damned if you did situation, would it?

(Mr McNeill) Our difficulty is that we wanted to gather experience and get some feel for how many farmers would be interested in making their application on the Internet, rather than have a big bang in 2004–05 we wanted to start the process of learning and getting feed-back from farmers. The difficulty we had was that we do not have the new systems. All we were doing was putting on a smart front end to the system to enable farmers to fill in the forms. Unfortunately the old legacy systems which back that up were not as well connected as they might be. So we are trying to use old systems to gain feed-back in terms of how much take-up might we have. We were very pleased with the 10,000 expressions of interest. I think a number of farmers became extremely frustrated with the slowness of the system, the difficulty in actually accessing the information that was held in the various data registers and in the legacy systems. They were fed up with it hence we ended up with a relatively low take-up. This year that improved somewhat. We had the president of the NFU himself who made a number of very constructive comments about how this might be improved, which we have taken on board. We have taken this on board for the third year now and we are rolling out. For example, things like the ability to download the form, fill it in off-line and then put the information back in. We have taken on board and we have learned. We have had useful feed-back. The point I am trying to make is that we do run the risk of people thinking that this is what we are spending the money on. That is what I mean by damned if we do and damned if we don't. We need the experience; we need the information. We could put a lot of people off actually using the system and the real systems that we want to work with will not be on-line until 2004–05.

72. What does 20% of your customer base represent in numbers roughly?

(Mr McNeill) About 20,000.

73. So you have to get from 842 to 20,000?

(Mr McNeill) Yes.

74. The IACS form itself, do you think you could make it more difficult?

(Mr McNeill) I accept that it is a particularly complex form. I have not tried to fill one in because I have no personal experience of farming. I am very much aware that it is a very complex form and farmers would find it very difficult.

75. Are there any proposals to simplify it?

(Mr MacKinnon) The main effort that we are making in terms of improving the IACS system is to simplify the form, to fill more intelligence into the forms so that it is self constructing in that if you have fed data into it once it will repeat in all the places it need to repeat. We will enter onto it all the data we have already got. We will have our databases talking to each other so that we get the data once and we use it several times. We have to

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[Mr Breed Cont]

collect the information which the regulation requires otherwise we risk farmers not getting their subsidy. There is a minimum amount of data that you have to get, but the forms can be much more user friendly.

76. Is the data required different for each country?

(Mr MacKinnon) No, it is the same for each country.

77. So why do we have a form which is so complex compared to others?

(Mr MacKinnon) They may have other data sources. This is the sort of thing we are working on. Johnston mentioned that you have the bovine data at Workington. We will have our own land register that we are currently building. Half of the IACS parcels of land are already digitised on our own rural land register. That sort of data we will have available. We will have a common understanding of what the land is between ourselves and the farmers. Basically we want to collect the same data using our data where we can, getting it from the farmer where we cannot, make the form more intelligent in the sense that it validates as the farmer goes along entering the information, and making our literature as user friendly as we can as well. That is something we do make quite an effort on now, but there is still some way to go on that; we could still be better on that.

78. I am going to put a scenario to you. You then put information onto the IACS form and then get that down to one of the farmers who has expressed an interest. He then goes through the form but of course misses one of the bits of information that you have provided, sends it back and, of course, at that miraculous time you spot that there is a mistake. Then, of course, he is penalised because you are saying that he has made a mistake and he is saying that it was you who provided the information. Whose fault would that be?

(Mr MacKinnon) It would be the farmer's fault.

79. Yes, because he is supposed to check it but you have provided all the information.

(Mr MacKinnon) You cannot have a process in which you ask somebody to sign saying that he has read and checked and that he is right, and then ignore that signature. There is a lot we can do to minimise the situations in which the farmer will get it wrong, to make it more helpful to him, less likely that he would actually miss important things like that. Where there are cross-checks within the form to point them out to him to say, "If you are putting this number in this box the number in the other box ought to be bigger; do check that". It is the sort of thing which all government departments which are going down this route now are exploring; we are learning from others. We could do a lot more to help. We cannot simply ignore the signature nor where the onus lies. If we ignore it we take it onto the tax payer and that is an invidious choice.

Mr Wiggin

80. I want to ask about the 842 claims that were submitted electronically. They were paid first, were they not?

(Mr MacKinnon) They were not, no.

81. Why was that?

(Mr MacKinnon) I cannot tell you the technical reasons. They were not paid last either. It was no part of the promise that was made at the time. I have to say this was before my time in charge of that, but my understanding of it—going round the offices where they were actually being processed—was that they were coming through during what you might call the processing season. My understanding of that was that the new receiving system within Defra—or MAFF as it was when this was introduced—and there was a lot of validation being done within the confines of the MAFF system. But I could not tell you exactly what the problem was.

82. Ten thousand people expressed an interest in doing their claims electronically. There was no incentive to encourage them to do so and as a result only 842 people submitted an electronic claim. And yet there is a target of 95% by the end of March 2004–05. Why was there not an incentive to do this?

(Mr McNeill) The intention is that in 2004–05 we will have the proper systems and the incentive will be that if you put in the accurate data your claim will be processed and you will receive your payment probably much quicker than others using paper-based applications or whatever. That is our intention. With the legacy systems we had and the technology difficulties, I am afraid this system just cannot deliver that type of process. The 10,000 number to us was very pleasing; that is about 10% of our customer base who were interested. That was a good start. One of the difficulties we had at that time was that they were required to get a digital certificate. In other words, to engage in a financial transaction over the Internet you must have the digital certificate. We arranged with the chambers of commerce to issue digital certificates at no cost to the farmers so that they could actually make that application. Of course, we had foot and mouth disease and numerous other problems and it meant going and queuing in the chamber of commerce et cetera. All of those difficulties made it almost as difficult as making the application on a paper-based system. I think that put a lot of our customers off. Can I just touch on the issue of 20% take-up? BCMS have developed an e-business application where farmers can notify them for passports and movements. They have at this time about 20% of their customer base making applications. That, we think, is a good example of take-up with the farming community.

Chairman

83. Let us just go back to a simple matter. The forms that Mr Breed was pressing you about. We have all seen different examples from different countries. I think, as Mr MacKinnon was saying, the form has to be simplified. What kind of time frame are you working in?

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(*Mr MacKinnon*) We should have our new system supplier on board with us hopefully from as soon as next week. We will be sitting down with the supplier who is going to develop the new system. The new forms ought to arise as a result of the system development. There is certain work which we have done on specifying what our requirement is and clearly that carries a significant element of simplification in it, but we need to sit down with the supplier, discuss how the thing is going to look on-line; how the thing is going to look on paper. It should be next year.

84. Are you in a position yet to tell us who the new supplier is?

(*Mr McNeill*) That decision will be taken by the permanent secretary within the next day or two and we would hope to sign the contract on Friday. I can certainly tell you who the three bidders were if that helps. Xansa, CSC and Accenture were the three short-listed bidders. There has been evaluation and proposals written which have gone forward to the permanent secretary.

85. This is a big change process. You are changing from an antiquated system to an all singing all dancing system and the Government is not good at developing new systems. I have seen figures that suggest yours is one of the most risky. What kind of confidence have you got that you will be able to handle this?

(*Mr McNeill*) I am very pleased to be able to tell this Sub-Committee that the Office of Government Commerce undertook reviews of our various programmes and we have had green lights for all of our Gateways and the final Gateway Three which is required to have their approval took place last week. On Friday we received a green light; not an amber, not a red, a green. I have to say that the report is very, very positive. We have spent a lot of time looking and reading the NAO reports, what went right, what went wrong; we have undertaken a large number of best practice visits (as I was recommended to do so by this Committee). We have followed best practice. We have been to the passport office. We have been to all the organisations that have had major problems and have sat with the management and had very frank discussions as to what went wrong and how can we avoid it. We have given a commitment as a senior management team to spend a very substantial amount of our time getting this programme right. I think as a result of that and the enthusiasm and effort that we bring to this we have received very positive reports from OGC. But we are not complacent. I have to say we are very pleased with the supplier that we have on board. If you had asked me two years ago if we would have been content to have the three suppliers I mentioned earlier even bidding for this work I think we would have been very pleased. We think we have a very good supplier. We think we have everything in place that OGC consider correct. We have followed all of OGC's best guidance. Green lights all the way through to date. We think we are well placed to make this work.

86. The change process is going to drastically reduce the number of staff. You are in difficulty with your staff because of pay and conditions. You are closing offices down. You are going to reduce substantially the number of staff. Morale, I guess, is not entirely high. How are you going to handle this transition? You have to keep your staff on board, have you not?

(*Mr McNeill*) Although we had industrial action over pay I would say we had probably the best industrial relations of any organisation I have ever worked with. We have the formal Whitley Council arrangements fully recognised and in place, but we have an excellent informal industrial relations framework as well. I have an open door policy with our trade unions. They sit on our management group. They are fully engaged in all management board papers. They are fully engaged on the change programme. They are quite aware—we have made no secret of the fact—that it is our intention to lay off a thousand-plus staff. We do point out that we have a substantial amount of funding available to make sure that we part with those staff in an appropriate manner, to their satisfaction. We have, I think, excellent industrial relations. The industrial action was not of our making. They accept that; we accept that. We met with them at the time they proposed to take industrial action and cause us damage and cause our customers difficulties. We considered with them what course of action that we, as management, might take and had a very frank discussion on that. I think our relationship has strengthened following that, as opposed to weakened. In terms of the Trade Unions we think it is a good story. In terms of the programme itself, this is not a big bang approach. Hugh has already mentioned the significant investment we have made in the land register. About 50% of the 1.7 million parcels of land have now been digitally mapped. That piece of work is going on remarkably well. We have invested in a new finance system which is an Oracle development. We brought down the finances previously managed by MAFF in York and combined them with the Intervention Board finances. We now have in place an Oracle upgrade. That has gone well ahead of time and in budget; that piece of work is now complete. We have invested in a serious piece of change management with our Inspectorate and that has gone well and is in place. The final piece—the most important piece probably—is this investment we are making. We think we have a very good, top-class company which is very enthusiastic about the work. In particular they are very attracted to potential market opportunities in Europe and can see that, with the expansion of the EU, this has got certain attractions and have made great play of that. They have come in within our pre-tender estimates over a 17 month procurement and we think they have a good deal, we have a good deal and that is going to assist us in making this work.

Mr Breed

87. You mentioned digital mapping which was going on last year and is going on now. There was an August 2002 deadline for farmers to return the maps you sent out. What proportion of those maps were returned on time and what proportion came back without any changes on them?

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(*Mr McNeill*) We have 841,000—that is about 50 per cent—of parcels that have been digitalised. We have only recently started sending out maps to farmers. We have sent out 19,000 IACS applicants of a total of 67,900. So we have sent out about 20,000 out of about 70,000. On average each applicant received three maps. Just under 15,500 applicants have already returned their maps to the RPA. So we have sent out 19,000; 15,500 have sent them back, which is about 81%.

88. Those that came back, were they perfectly all right?

(*Mr MacKinnon*) The time limit was of our own setting and clearly when we set it we misread the market in the sense that farmers were fairly upset that they were being given a short period of time, as they saw it. I do not think we have any difficulty with that. There is no penalty for being late coming back. We sent out that signal and clearly if we were doing it all again we would be talking to farmers before we put the time limit on. You need a bit of discipline in this thing because you are building a major database with suppliers on board. You want to keep the flow of work to them. We did want a date, but we could have spent a bit of time just agreeing with the farmers what would be reasonable at that time of year. Hands up to that. No penalties arose from any that were late; most people rang and we just gave them extra time.

89. Presumably there will be some people who are going to refuse to send it back. What are going to do about those?

(*Mr MacKinnon*) The level of irritation is falling away. I have to say that when I first saw the quality of the maps that we were producing and sending out I actually thought that they would be very well received and farmers would be quite glad of a very high quality product, a map of their holding. But there was a bit of reaction, a lot of it born out of concern that the area of the farm was going to be found to be different from the area that they had been claiming and that somehow penalties would arise from that. We are using the most modern OS mapping so it is more accurate and there may be differences. The figures are that 88% of the maps that we have sent out or have been returned are within plus or minus 5% of the area before. There are no penalties being applied.

Chairman

90. If I were one of your farmers and I wanted to be paid in euros, is that possible? If it is not possible when will it be possible?

(*Mr Kerr*) The intention is that the new systems we are developing will have a euro payment capability as and when the Government decides that this is a direction it wants to go in. We can actually make payments in euros now, but we are, through this process, building the capability should that decision be taken then we will be able to pay in euros once the new change programme systems are in place.

91. So I could be paid in euros now?

(*Mr Kerr*) That is right. There have been one or two instances where there has been a specific request for payment in euros and we have accommodated it. There is not a difficulty with that. Clearly, if 100,000 customers say they would like to be paid in euros there would be major implications and it would be impossible, but where there is a specific need we can make that happen.

Mr Wiggin

92. What rate do you use?

(*Mr Kerr*) The prevailing rate for the payment when it is made.

Chairman

93. Mr McNeill I think it is about 18 months since you came to the old Agriculture Committee. Would that be about right?

(*Mr McNeill*) It is of that order, yes.

94. If you were to come in 18 months' time what progress would you have wanted to make?

(*Mr McNeill*) In 18 months' time our plans are to be rolling out the new systems, IACS applications will be made on the new systems. We would hope to point to a significant take-up and certainly application over the Internet. We would hope to still have a customer base that was content with our day to day operation and the way in which we continue through this difficult change programme—this challenging change programme—to make payments as best we could. As Hugh has mentioned, despite all of our difficulties this year we have made the IACS payments in record time. We hope to keep the existing business going. We would hope to have implemented the change programme and have a successful application in place so that we could start doing business in the way we plan to in the future.

95. What challenges are there in that 18 months?

(*Mr McNeill*) We are certainly not complacent. The fact that a top team from OGC (and I do mean a top team) have spent time with us—we are one of the top 31 programmes in terms of risk in government and challenge—we are not complacent. Despite having a series of green lights at the various stages so far we accept that much can still go wrong. I can only say that we think we have a very enthusiastic and dedicated management team and we are very focussed on making this work.

96. In terms of customer satisfaction, you told us you had had a survey which was 75%?

(*Mr McNeill*) That is correct, yes.

97. Where will it be in 18 months' time?

(*Mr McNeill*) Our plan is that we increase that by 5% each year. Can I just go on to add that the independent company identified that we have a customer base that is very demanding. It is going to be a challenge to improve our performance to a standard where the customer satisfaction will increase. They think to increase it by even 5% is quite a challenge for us. We are happy to make that report available to the Committee if you would like to read it.

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98. That is very helpful. Is there anything you want to tell us?

(Mr McNeill) I think we have had a very comprehensive discussion. I do not think there is anything else at this time.

99. You are going to send us some information about disallowance. You are going to let us have the customer satisfaction survey.

(Mr McNeill) Certainly. And the disallowance risk register which we think is a major step forward.

Chairman: Thank you. That is very helpful. I guess we will be meeting again at some time in the future. Best of luck with all you are trying to do.

Memorandum submitted by the Rural Payments Agency (L 4)

I enclose the additional information, which we undertook to forward to the Sub-committee:

- Customer Satisfaction Survey 2002—Initial Headline Report [not printed]¹;
- CAP Fraud;
- The Disallowance Report;
- Late 2001 Bovine claims.

The disallowance figure in respect of 2001 AAPS disallowance totals £226,127.77 (made up of non-food set aside £179,967.24 and non-textile flax seed £46,160.53). The details are included in the Disallowance Report (Annex 2, Item 9).

CAP FRAUD

1. Counter fraud activity is much wider within RPA than the work of the Counter-Fraud and Compliance Unit (CFCU). Scheme controls, operational vigilance and on the spot inspections ensure that the scope for fraud is limited and deal with many claims that are incorrect without resort to a criminal investigation. Inevitably as with any organisation that pays out substantial funds some “customers” seek to obtain funds to which they are not entitled or avoid the payment of levy due.

2. The RPA Enforcement Policy sets out the general principles and approach to enforcement that the Agency expects its entire staff to follow. This document is underpinned internally through the issue of guidance on referring suspected irregularities and relevant enforcement issues to the CFCU and periodic fraud awareness programmes.

3. The main types of fraud dealt with by RPA are the external abuse of schemes administered by the Agency through the making of false claims for aid, or hiding production to avoid payment of levy. Potential offences can be under scheme regulations or common theft, forgery, deception etc.

4. The combination of ex-IB and ex-Defra CAP schemes, together with the English Rural Development Programme, has increased the number of potential subject areas looked at by the CFCU from 49 to 68. In addition, a joint working agreement exists with HM Customs & Excise who initially have the option of investigating suspected CAP import/export irregularities.

5. Criminal investigation cases involving financial irregularity range from £1 million plus to £70 due to the wide range of schemes and scope of potential frauds involved. In addition the unit's 16 investigators are required to deal with enforcement issues such as failure to keep proper records which have no direct financial irregularity. The approximate caseload per investigator is 2-3 ongoing cases at any one time with an average of eight per year (total 128). On completion of the investigation appropriate cases are referred to Defra Legal Directorate in Whitehall who are responsible for any subsequent prosecution proceedings.

6. The number of cases investigated has remained constant over the last five years to March 2002 although identified monies have risen considerably—to a cumulative total of £6,275,101.12 reflected enhanced intelligence and tasking methods. Forty successful prosecutions have been conducted over the last five years. Formal warning letters and the numerous forms of potential administrative action available are however seen as equally important forms of deterrent and have been utilised as enforcement remedies.

7. It is worth pointing out that there is a major difference in fraud committed against RPA and many other Government Organisations. Other Departments can often identify levels of fraud or other irregularity by extrapolating results of audit/investigation across the relevant population eg if an audit reveals that 5% of prescriptions examined are irregular it may not be unreasonable to assume that 5% of all prescriptions are also irregular. RPA is dealing with 68 different and often complex schemes governed by different regulations

¹ See <http://www.rpa.gov.uk/rpa/custfocus.nsf>

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where the evidence or sequence of events is much harder to establish. The risk profile of each scheme is different and such extrapolation is not considered reliable. It is for this reason that it is not possible to quantify the deterrent value that exists from our counter-fraud activity.

8. Although there is a current requirement to report annually to the Commission on instances of suspected fraud against the CAP there is no available data on the success or otherwise of member states to pursue such cases.

DISALLOWANCE EXPLAINED

1. The European Court of Justice is the final arbitrator on the application of disallowance proposals made by the Commission. Staff from the agriculture and financial Directorates-General audit member states' EAGGF accounts. Commission auditors may propose financial corrections (disallowance or non-reimbursement of eligible expenditure) to address accounting corrections or for non-compliance with scheme rules. Amounts disallowed do not necessarily coincide with amounts incorrectly paid and often reflect Commission conclusions that the member state has carried out insufficient checks on claims or there are other control weaknesses which pose a risk to the Community budget. Where control weaknesses are evident, a flat rate correction of 2%, 5%, 10% or 25% can be applied depending on the severity of the weakness. Exceptionally, higher rates up to 100% can be applied. The European Court of Auditors audit the Commission's own accounts and can revisit member states' controls. The Commission's anti-fraud unit OLAF can make recommendations to the Commission's agriculture and financial Directorates that can result in disallowance.

2. Disallowance looks backward to when a weakness in control was first established and forward to when the weakness is addressed. There are several old cases still going through the process, otherwise the Commission is reasonably up to date and applying disallowance for weakness from EAGGF year 2000. There are currently two circumstances in which disallowance may arise:

As a consequence of ad hoc compliance audits by Commission auditors; the predominant source of disallowance. The Commission's procedures provide for financial correction in respect of the expenditure declared up to a maximum of 24 months preceding written notification of the weakness by the Commission together with expenditure in the months following the communication until the member state remedies the deficiency identified. This period may shortly move to 36 months. Ad hoc decisions also cover disallowance for late payments.

During the annual Financial Clearance of EAGGF accounts, normally consisting of financial corrections that are infrequent and minor.

In-year penalties—refusals on payments made after deadline dates

3. The UK Co-ordinating Body holds responsibility for obtaining and collating information from the Paying Agencies about refusals due to late payments. Each month the Table 104 expenditure is monitored for potential refusals by the Co-ordinating Body to advise Paying Agencies of any large potential refusals and any errors (eg mispostings) that might cause refusals. Commission documents concerning refusals and late payments are distributed by the Co-ordinating Body with a request for explanations as to why the late payments and subsequent refusals were incurred. The Commission impose penalties for late payments on the UK and not each individual Paying Agency. The penalty rates are contained in Regulation 296/96 Article 4 paragraphs 2, 2(a) and 2(b):

"2 Advances against booking shall be reduced for expenditure effected after the deadlines laid down as follows:

2(a) where expenditure effected after the deadlines is equal to 4% or less of the expenditure effected before the deadlines, no reduction shall be made, irrespective of the number of months' delay,

2(b) above the threshold of 4%, all further expenditure effected with a delay of up to:

- One month shall be reduced by 10%
- Two months shall be reduced by 25%
- Three months shall be reduced by 45%
- Four months shall be reduced by 70%
- Five months or more shall be reduced by 100%"

4. In practical terms, all Paying Agencies should look at their total farm-based payments made by the deadline date for each scheme (eg SCPS 30/6/02) and calculate 4% of that total by Budget Poste. This establishes a "reserve" to cover late payments from July onwards. The total payments made in July ($m + 1$) are subject to a 10% penalty for the amount exceeding the reserve. In the event that there is still a balance remaining in the reserve, there will be no penalty incurred and the remaining balance carried forward to August (and onwards) until the reserve is exhausted. If the reserve is exhausted in September ($m + 3$) a penalty of 45% is applied to the amount exceeding the reserve balance.

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5. As the UK is penalised for its collective late payments, the 4% reserve is calculated on the UK payments made by the deadline date. As a consequence, a single paying agency could exhaust the UK reserve in the first month. Payments made by the other paying agencies in the second month would find nothing in the reserve and be liable to a penalty. In that case the penalty is apportioned to each paying agency's payments in that month against the UK's total payments.

6. This is a collective exercise for the UK as a whole and relies on good performances by all Paying Agencies. All should aim to make 96.16% of all farm-based payments by the payment deadline date to provide a UK "reserve" sufficient to meet any late payments. It should also be noted that the total disallowance and penalties for late payments are borne by RPA on its Resource Estimates.

Audit wash-up discussions and exchange of correspondence

7. This is a key stage in the negotiating process that allows the audit team to discuss their findings and to provide the paying agency with the opportunity to correct any misunderstandings. Further dialogue continues after each audit through extensive exchanges of correspondence and the provision of supplementary information to support the paying agencies argument and to further correct any factual errors.

Bilateral Discussions and the Conciliation process

8. When the Commission initially notify member states that they have found a control weakness, that would have an effect on the EC budget, they formally request comments from the member state and offer the option of bilateral discussions. This process from notification to completion of talks takes around two months. Member states also have the right to an independent hearing to the Conciliation Body (six weeks after bilateral discussions). The Commission also makes a presentation to the Conciliation Body. The Conciliation Body has four months to report. The Commission is not bound by the Conciliation findings.

Role of UK Co-ordinating Body

9. As UK has six paying agencies the regulations require a Co-ordinating Body to act as a link with the Commission. They circulate papers to relevant paying agencies, issue replies to the Commission, notify RPA of forthcoming Commission visits and attend bilaterals and conciliation hearings. They are also contract managers for the Certifying Body audit contract. The UK Co-ordinating Body offer advice and guidance at each stage in liaison with all six UK paying agencies. They also act as Secretariat to the UK Competent Authority (the UK agriculture ministers) to advise on all aspects of accreditation policy.

Role of the Certifying Body

10. The Certifying Body (CB) undertakes the annual audit of all UK EAGGF accounts on behalf of the Commission, under contract to UK Co-ordinating Body. This audit comprises scheme compliance and accounting checks. The CB provides an annual report and an assurance to the Commission that the paying agency systems and controls are adequate. They can recommend control improvements and in exceptional cases point out weaknesses which in their view need to be addressed to ensure accredited paying agency status is not jeopardised.

COMPENSATION FOR THE LATE PAYMENT OF 2001 BOVINE CLAIMS

1. RPA will make compensation payments to those producers who have experienced delays beyond 30 June 2002 in receiving their 2001 scheme year bovine balance payments as a result of a failure by RPA or BCMS. We are still finalising how the arrangement will be implemented. However, compensation will not be paid in any other circumstances for example, payment delayed because the CTS database had not been notified of changes prior to cross-checks being undertaken. Payments will be calculated automatically. Producers are not required to apply.

2. We have estimated that the total value of compensation payments under the 2001 bovine scheme is likely to be around £800 thousand. All payments will be subject to a £50 de-minimis and this will reduce the number of producers qualifying for payment. However, the total payable is very much an estimate at this stage. We will not be calculating and making the payments until early April 2003 so we will not be in a position to confirm that actual level of compensation paid until after that point.

Rural Payments Agency

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Annex 1

SUMMARY OF ACTUAL DISALLOWANCE IN FY 2002–03: RPA

<i>Item</i>	<i>EAGGF Year</i>	<i>Scheme</i>	<i>pre-RPA P/ Agency</i>	<i>Areas of concern to EAGGF</i>	<i>RPA Disallowance</i>	<i>Comments</i>	<i>Corrective action being taken</i>	<i>Estimated cost</i>
PART 1.1 ACTUAL DISALLOWANCE (confirmed by Commission Decisions of 12.6.02 (2002/461/EC); 28.6.02 (2002/523/EC and 2002/524/EC) and 5.11.02 (C2002/881/EC))								
1	1999	Livestock Extensification	Defra	Livestock Extensification (Field Checks) lack of cross-checks. (EAGGF 1999 16.10.98–15.10.99)	£9,240.00	Decision 2002/523/EC of 28.6.02 9th ad hoc decision. For clearance in FY 2002–03. Reduction in the forage area had not been correctly transposed in the IACS database for bovine premiums, leading to an undue payment on extensification premium.		
2	2000	AAPS	Defra	Arable crops non-food set-aside, non-respect of payment deadlines. (EAGGF 2000 16.10.99–15.10.2000)	£284,712.87	Decision 2002/523/EC of 28.6.02 9th ad hoc decision. For clearance in FY 2002–03. Explanation provided to the Commission “difficulties with internal procedures” not accepted.	Instructions to staff reviewed and reinforced to stress the payment deadlines and the need for timely processing. Payment targets re-stated and performance monitoring and management reporting increased.	
3	2000	AAPS	Defra	Arable crops soya, colza and sunflower seed, non-respect of payment deadlines. (EAGGF 2000 16.10.99–15.10.2000)	£9,498.40	Decision 2002/523/EC of 28.6.02 9th ad hoc decision. For clearance in FY 2002–03. Explanation (see item 2) not accepted by the Commission.	As above.	
4	1996 1997	OTMS	IB	OTMS 20% following incineration (EAGGF 1996 16.10.95–15.10.96) (EAGGF 1997 16.10.96–15.10.97)	£4,827,612.00	Decision 2002/524/EC of 26.6.02 10th ad hoc decision. For clearance in FY 2002–03. May increase once all material (including tallow) has been incinerated (possibly by a further £1 million).	All relevant action was taken in 1996–98 when the original disallowance was imposed. All audits since 1997 have cleared the scheme.	
5	2000	Various	IB	Bad debts and Milk Quotas trader. Release of Guarantee. (EAGGF 2000 16.10.99–15.10.2000)	£28,357.39 £6,072.41	Decision 2002/524/EC of 26.6.02 10th ad hoc decision. For clearance in FY 2002–03.	New and stricter regulatory requirements were introduced following pressure from the UK.	
6	2001	Financial	Defra	Unreconciled items arising on the Barclays bank account. (EAGGF 2001 16.10.00–15.10.02)	£26,703.32	Decision 2002/461/EC of 12.6.02. Financial clearance of the EAGGF Guarantee Section accounts for 2001. Accepted by RPA.		

SUMMARY OF ACTUAL DISALLOWANCE IN FY 2002–03: RPA—*continued*

Item	EAGGF Year	Scheme	pre-RPA P/ Agency	Areas of concern to EAGGF	RPA Disallowance	Comments	Corrective action being taken	Estimated cost
PART 1.1 ACTUAL DISALLOWANCE (confirmed by Commission Decisions of 12.6.02 (2002/461/EC); 28.6.02 (2002/523/EC and 2002/524/EC) and 5.11.02 (C2002/881/EC))—continued								
7	1999 2000	Agri-Environment Measures	Defra	Lack of cross checks and IACS controls (reinforced with Rural Development audit). (EAGGF 1999 16.10.98–15.10.99) (EAGGF 2000 16.10.99–15.10.2000)	£564,763.47 £489,378.05	Decision 2002/881/EC of 5.11.02 11th ad hoc decision. For clearance in FY 2002–03. Failure by Defra to introduce a system of automated cross checks between agri- environment scheme agreements and claims and IACS database for EAGGF years 1999 and 2000. 2% flat rate disallowance on UK total expenditure in 1999 and 2000. (See also Potential Disallowance Item 10 for 2001 EAGGF year.)	CSMU and Scheme Manager to maintain pressure on RDS to complete the cross check work and to ensure both the interim and final reports are sent to the Commission by the set deadlines. Depending on the Commission assessment of these reports, bilateral talks with the Commission may be needed. Conciliation is a further option if the threat of disallowance is maintained. The final progress report was submitted on 29.1.03 and provided the status as at 10.1.03. This reported on the difficulties and the need to resolve an average of 10 warnings on each agreement, all of which required full investigation and resolution by some 200 staff dedicated to the task. The exercise is now substantially complete with 89% (21,929) cross checks completed with a further 7% (1,789) investigated and awaiting final completion. The remaining 4% (1,050) are currently under review for early completion. Costs so far amount to some £1 million.	£1,100,000.00
ACTUAL DISALLOWANCE (confirmed and applied during FY 2002–03):					£6,246,337.91			
PART 1.2 ACTUAL DISALLOWANCE REIMBURSED (confirmed by an ad hoc clearance decision)								
ACTUAL DISALLOWANCE REIMBURSED:					£0.00			
							Possible reimbursement of FY 2000–02 disallowance (refer to Annex B Items 11a/11b).	
PART 2. ACTUAL DISALLOWANCE (accepted but not yet confirmed by Commission Decision)								
8	2001	AAPS	Defra	Aid for Producers of Maize m/y 2000–01. Set-aside (per Hectare Aid) m/y 1999–2000 non-respect of payment deadlines. (EAGGF 2001 16.10.2000–15.10.01)	£15,400.44 £32,161.99	Financial clearance of the EAGGF Guarantee Section accounts for 2001. Not contested by RPA. Anticipate inclusion in 12th ad hoc decision to be issued by 31.3.03.	Instructions to staff reviewed and reinforced to stress the payment deadlines and the need for timely processing. Payment targets re-stated and performance monitoring and management reporting increased.	
ACTUAL DISALLOWANCE (accepted but not confirmed):					£47,562.43			
TOTAL DISALLOWANCE:					£6,293,900.34			
						Performance against Target of 2% = 0.16% (see Note below)		

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[Continued]

Annex 2

SUMMARY OF POTENTIAL DISALLOWANCE IN FY 2002–03 ONWARDS: RPA

Item	EAGGF Year	Scheme	pre-RPA P/ Agency	Status of RISK (R/A/G)	Areas of concern to EAGGF	RPA Disallowance	Comments	Corrective action being taken	Estimated cost
PART 1. POTENTIAL ISSUES GIVING RISE TO A RISK OF DISALLOWANCE									
<i>Status Report: Annex D</i>									
<i>Local Risk Register Number</i>									
<i>Carlisle 46</i>									
1	2001	Bovine Schemes Claim Year 2000 (16.10.00–30.6.01)	Defra	Red	CTS (Livestock including Extensification) early indicators suggested for UK a 2% flat rate disallowance (UK £13.6 million with Defra/RPA proportion £6.7 million). Formal notification (D(2002)00813 of 29.01.02 AGR 002924) based on total expenditure in England of: SCPS £73,373,012.60 BSPS £101,173,113.39 SPS £18,359,085.18 Extens. SCP £19,468,939.70 Extens. SBP £27,540,616.97 Agri-money SCP £29,502,708.14 Agri-money SBP £40,680,908.82 Total £310,098,384.80 (EAGGF 2001 16.10.00–15.10.01)	£7,337,301.26 £2,023,462.27 £367,181.70 £1,946,893.97 £1,377,030.85 £1,114,727.92 £14,166,597.97	CTS was not complete when year 2000 claims were paid. Final amounts for Claim Year 2000 paid in EAGGF Year 2002 (16.10.01–15.10.02) to be taken into account in a future Clearance of Accounts decision. 10% of expenditure 5% now revised to 2% 5% revised to 5% OTM, 2% UTM 10% of expenditure 5% of expenditure Revised by the Commission to reflect 10% SCPS and 5% SBP First formal notification (002924 dated 29.1.02) £21,622,152.26. Following adjustment to Agri- money by the Commission in August 2002 £17,752,563.93. Following Conciliation and bi- lateral meeting on 18.9.02 proposed adjustments to SPS and BSPS £14,166,597.97. Note: Retained as potential disallowance until 12th ad hoc Decision finalised. When confirmed this will transfer to the Actual Disallowance if clearance is likely to occur in FY 2002–03.	This went to the Conciliation Body (see below). Automatic cross checks between the CTS and Bovine Subsidy Claims have been built into the system and will operate from EAGGF 2002 onwards. Consideration is being given to undertaking manual checks for EAGGF 2001 (16.10.2000–15.10.01). There will be an ongoing staff cost each year of £0.8 million to cover the automated checks and the resolution of the queries arising. The estimated cost of the retrospective checks for EAGGF 2000 and EAGGF 2001 has risen from £2.6 million to £4 million. The Conciliation Body reported and asked why RPA had not fully implemented the regulations. They suggested further talks be held with the Commission to reach an agreement to reduce the level of disallowance. RPA held another bi-lateral meeting with the Commission on 18.9.02. The Commission proposed further reductions against SPS UTM animals (5% to 2%) with OTM animals remaining unchanged, and against BSPS from 5% to 2%. The Commission would extend the corrections to Scotland and Wales (if appropriate). Off the record, the Commission indicated that they would prefer RPA, SEERAD and NAW not to undertake cross checks for 2000	£800,000.00 £3,600,000.00

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SUMMARY OF POTENTIAL DISALLOWANCE IN FY 2002–03 ONWARDS: RPA—*continued*

<i>Item</i>	<i>EAGGF Year</i>	<i>Scheme</i>	<i>pre-RPA P/ Agency</i>	<i>Status of RISK (R/A/G)</i>	<i>Areas of concern to EAGGF</i>	<i>RPA Disallowance</i>	<i>Comments</i>	<i>Corrective action being taken</i>	<i>Estimated cost</i>
PART 1. POTENTIAL ISSUES GIVING RISE TO A RISK OF DISALLOWANCE—<i>continued</i>									
<i>Status Report: Annex D Local Risk Register Number Carlisle 46—continued</i>									
								(particularly as this would not affect the current levels of disallowance) and concentrate efforts on sorting out cross checks for CY 2001 and beyond. The Commission also confirmed that issues arising from the ECA report regarding the accreditation of the CTS database was a matter for DGSANCO.	
<i>Status Report: Annex E Local Risk Register Number Carlisle (Bovine) tbn Northallerton (SAPS) tbn</i>									
2	2001 2002	IACS SAPS SCPS BSPS (Claim years 2000–02 payments made May 2000–15.10.02)	RPA	Red	DG AGRI Audit of the Sheep Annual Premium Scheme in Wales. (EAGGF 2001 16.10.00–15.10.01) (EAGGF 2002 16.10.01–15.10.02)		The audit was primarily to look at the implementation in Wales of the new IACS regulation and the new Sheep regulations. Comments from the audit team advised that retrospective checks be taken on bovine premia similar to those undertaken/envisaged for sheep. Commission anticipate difficulties for the UK (not limited to Wales) in the implementation of Regs 3887 and 2419, particularly given the number of outstanding inspections due to FMD. 2001 claims inspected in 2002 would attract penalties under Reg 3887. 2002 claims to attract penalties under Reg 2419. Inference is that inspections on claims relating to 2001 and 2002 would need to apply penalties under both regulations. This raises questions on the approach to whole bovine inspections and the imposition of penalties.	Bovine SMU (RPA Carlisle) have taken account of the findings of the Welsh SAPS audit in planning for bovine inspections this year. CSMU co-ordinated a UK-wide response to the Commission in July 2002. This included full details on all measures put in place to overcome the absence of on-the-spot checks in 2001 due to FMD and provided the results of on-the-spot checks for claim year 2001 carried out in 2002. It is not possible to quantify any appropriate level of disallowance which may arise. For indicative purposes only, the total SAPS expenditure for RPA in EAGGF 2000–02 on Sheep Premiums was £173.816 million. (10% = £17.382 million; 5% = £8.691 million and 2% = £3.476 million.) A bi-lateral meeting with the Commission and UK (RPA and NAW) was held on 20.11.02. Initial thoughts suggest that a 2% flat rate correction may be applied to Wales only. Specific audit recommendations and proposals for disallowances have yet to emerge.	

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SUMMARY OF POTENTIAL DISALLOWANCE IN FY 2002–03 ONWARDS: RPA—*continued*

<i>Item</i>	<i>EAGGF Year</i>	<i>Scheme</i>	<i>pre-RPA P/ Agency</i>	<i>Status of RISK (R/A/G)</i>	<i>Areas of concern to EAGGF</i>	<i>RPA Disallowance</i>	<i>Comments</i>	<i>Corrective action being taken</i>	<i>Estimated cost</i>
PART 1. POTENTIAL ISSUES GIVING RISE TO A RISK OF DISALLOWANCE—<i>continued</i>									
<i>Status Report: Annex F</i>									
<i>Local Risk Register Number</i>									
<i>Carlisle 9</i>									
3	2002	BSPS SCPS EPS SPS Claim year 2001 (16.10.01–30.6.02)	RPA	Amber	All Bovine schemes non-respect of payment deadline of 30.6.02. (EAGGF 2002 16.10.01–15.10.02)	£4,972,000.00	RPA was unable to achieve the target of 96.14% of Bovine payments by the deadline date of 30 June 2002. This was due to the inaccurate CTS and the problems this creates when cross checking; a backlog at CTS; cross checking software is still being rolled out for some schemes; and the weaknesses in legacy systems and the further problems that creates. For most bovine schemes advances of 80% were paid earlier in the year.	RPA wrote to the Commission requesting an extension of the deadline to 30 September. The Commission response on 6 August 2002 indicated that expenditure up to the end of August 2002 on Bovine CY2001 schemes would be considered without penalties for the two months beyond the normal deadline date. There was a need to complete the cross check work quickly and make as many payments as possible in August to establish a reserve for the later payments in September and 1–15 October. The cost of the cross checks has been in the order of £3.6 million. Against a forecast of £243 million some £245 million was paid by 31 August, a further £26.993 million was forecast by 31.12.02 with £30.437 million actually paid. Increased payment performance by 31.12.02 should reduce the liability for further late payments from January 2003 onwards which attract penalties at 100%. Latest forecasts (December 2002) provide for a further £0.094 million still to be paid. The performance of the UK as a whole was better than expected and this resulted in a higher reserve to cover late payments by all paying agencies. The revised in-year penalties falling to RPA take advantage of this overall performance. Without the extension to the deadline date for the UK, penalties applied to RPA could have been as high as £22 million. The Commission's response included a strong statement that it would be extremely difficult to provide the UK with a similar concession to extend the deadline date for bovine schemes next year (CY2002)	£3.6 million (include with Item 1)

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SUMMARY OF POTENTIAL DISALLOWANCE IN FY 2002–03 ONWARDS: RPA—*continued*

<i>Item</i>	<i>EAGGF Year</i>	<i>Scheme</i>	<i>pre-RPA P/ Agency</i>	<i>Status of RISK (R/A/G)</i>	<i>Areas of concern to EAGGF</i>	<i>RPA Disallowance</i>	<i>Comments</i>	<i>Corrective action being taken</i>	<i>Estimated cost</i>
PART 1. POTENTIAL ISSUES GIVING RISE TO A RISK OF DISALLOWANCE—<i>continued</i>									
<i>Status Report: Annex G</i>									
<i>Local Risk Register Number</i>									
<i>Carlisle 45</i>									
4	2001	Beef Extensification Scheme Claim year 2000 (16.10.00–30.6.01)	RPA	Amber	Beef Extensification Scheme non-respect of payment deadline of 31.7.01 (following one month extension from 30.6.01). (EAGGF 2001 16.10.00–15.10.01) (Proposed penalties 16.10.01–31.7.02) Suckler Cows £107,015.89 Male Bovines £70,772.17 (Penalties TBN for 1.8.02–15.10.02) Suckler Cows £12,581.22 Male Bovines £29,059.50 (Estimated penalties TBN for 16.10.02–31.12.02) Suckler Cows £7,398.71 Male Bovines £3,147.99	£229,975.48	RPA was unable to achieve the target of 96.14% of Bovine payments by the deadline date of 30 June 2001. This was due to additional work on FMD cases and the Commission, at the request of RPA, granted an extension of the deadline date to 31.7.01. UK reimbursement for December 2002 reduced by £745,150.32 of which £177,788.08 falls to RPA. Invitation to bilateral should follow before clearance in FY2003–04.	The Commission granted the UK a one month extension to the payment deadline date from 30.6.01 to 31.7.01. Late payments in the period 1.8.01–15.10.01 attracted penalties of £2,210,705.27 which were not imposed in the EAGGF 2001 Financial Clearance of accounts. Penalties for the UK during the period 16.10.01 to 31.7.02 total £745,150.32 (of which, RPA is responsible for £177,788.06). RPA will also incur further potential penalties for the period for the period 1.8.02–15.10.02 of some £6,226.31 (these have yet to be reported by the Commission and will form part of the financial clearance of EAGGF 2002 accounts. The impact of FMD and the problems with CTS cross checks (see Item 1) continue to have a major impact on the Bovine CY2000 and 2001 schemes. This has been recognised by the Commission who have granted a two month extension for CY2001 payments (see Item 3). RPA have submitted a strong case to the Commission (through UK Co-Body) based on the significant disruption caused by FMD and that the impact was not fully appreciated by either the UK or the Commission services at the time the one month extension to the payment deadline date was requested. The submission also asked the Commission to look again at their treatment of CY2000 and CY2001 payments and the inconsistency with which they have treated this case. If successful, these penalties would be removed.	

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SUMMARY OF POTENTIAL DISALLOWANCE IN FY 2002–03 ONWARDS: RPA—*continued*

<i>Item</i>	<i>EAGGF Year</i>	<i>Scheme</i>	<i>pre-RPA P/ Agency</i>	<i>Status of RISK (R/A/G)</i>	<i>Areas of concern to EAGGF</i>	<i>RPA Disallowance</i>	<i>Comments</i>	<i>Corrective action being taken</i>	<i>Estimated cost</i>
PART 1. POTENTIAL ISSUES GIVING RISE TO A RISK OF DISALLOWANCE									
<i>Status Report: Annex H Local Risk Register Number Northallerton tbn</i>									
5	2001	AAPS Market Year 2000–01 (16.11.00–31.1.01)	Defra	Amber	Arable crops and forage areas— Remote Sensing (EAGGF 2001 16.10.00–15.10.01)	£11,484,000.00 (See note (1))	Commission perceived serious deficiencies in EAGGF 2001 remote sensing controls. These concerned technical tolerances for area measurement and quality problems with the contractor. No formal proposal on the level of disallowance but given the Commission's view of the seriousness of the findings, it was assumed that they may propose anything up to 10% of the total AAPS expenditure unless they are satisfied by the UK response. Note (1): Initial calculation was based on the Defra T104 ending 15.10.01 all AAPS m/y 00–01 totals £854,016,506.67 therefore 10% disallowance to be £85,401,651—worst case scenario based on widest possible application of the Commission's guidelines on the Clearance of Accounts. The Commission have given further consideration to RPA's argument and following a bi-lateral meeting on 18.9.02 has proposed a reduced level of disallowance amounting to a 2% flat rate correction confined to those regions controlled by the one contractor (HTS) who covered 33% of the land based area. This expenditure totals £574.2 million and a 2% flat rate correction could reduce the disallowance to around £11.5 million but RPA still consider this to be unacceptable. Negotiations with the Commission continue.	RPA made a robust defence of its position during a bi-lateral meeting with the Commission on 18 September 2002. RPA were satisfied with images provided to the contractor; RPA were aware of the contractor's performance problems and before the audit had already implemented a recovery programme; field checks were prevented by FMD. Digital mapping provided by Ordnance Survey was first used in 2001, and provided an exceptional level of accuracy on a par with and sometimes better than aerial photos. No payments were made where irregularities discovered, and no credit given by the Commission for corrective actions taken before, during and after the audit. RPA strongly refuted a suggestion that it was the intention not to comply with the requirements of Regulations 3508/92 and 3887/92. For 2002 the remote sensing contractor will use digital maps and orthophotos to ensure that Commission tolerances are fully met. A higher risk weighting has also been included in the risk analysis/selection procedures in respect of the four zones examined by the previous year's contractor. This will provide additional assurance on the standard of control in these areas. As a result of the bi-lateral meeting the Commission have requested further information relating to the expenditure figures for the 2001 harvest years for those regions of England controlled by the contractor (HTS). This information is being compiled and will be forwarded as requested. At the same time RPA will be returning to the charge made by the Commission with further robust argument in an attempt to overturn this disallowance.	

SUMMARY OF POTENTIAL DISALLOWANCE IN FY 2002–03 ONWARDS: RPA—continued

Item	EAGGF Year	Scheme	pre-RPA P/ Agency	Status of RISK (R/A/G)	Areas of concern to EAGGF	RPA Disallowance	Comments	Corrective action being taken	Estimated cost
PART 1. POTENTIAL ISSUES GIVING RISE TO A RISK OF DISALLOWANCE—continued									
<i>Status Report: Annex I</i>									
<i>Local Risk Register Number</i>									
<i>Newcastle (Not applicable)</i>									
6	1999	Intervention	IB	Red	Public storage of beef in Northern Ireland (EAGGF 1999 16/10/98–15/10/99)	£492,176.90	Problems perceived by OLAF regarding the classification by LMC of the intervention beef in Northern Ireland. Initial proposal was disallowance amounting to £1,004,511.76. Following the Conciliation Body report, the Commission were asked to limit the period of disallowance to a maximum of 24 months prior to the Article 8 letter. RPA provided the Commission with revised expenditure for period under query which amounted to £4,921,768.96. The rate of disallowance remains unchanged at 10%. Note: Retained as potential disallowance until 12th ad hoc Decision finalised. When confirmed this will transfer to Actual Disallowance if clearance is likely to occur in FY2002/03.	There were follow up visits by the Chief Technical Inspector to check that the standards for carcase classification overseen by DARD(NI) were reviewed and are checked annually, and there is regular dialogue between the classification staff and RPA. This has been re-inforced through the Accreditation requirements that cover technical/delegated functions. The UK received a positive conciliation hearing on 7 June 2002 during which RPA argued strongly on three points (extent of the problem was not as large as the Commission stated; UK was being treated differently to other member states; and the Commission's view on the effect the issue may have had on market prices). The Conciliation Body did not support the size of the 10% proposed disallowance which they viewed as excessive. The Commission do not have to abide by this finding and are at liberty to impose the full disallowance of £1 million when reaching their decision. Following issue of the Conciliation Body report the Commission conceded that a maximum period of 24 months prior to the Article 8 letter dated 15.2.00 was appropriate in this case. They did not agree that a reduced level of disallowance below 10% was appropriate. The details have still to be formally ratified by the Council of Ministers before disallowance is notified through a Commission Decision.	

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[Continued]

SUMMARY OF POTENTIAL DISALLOWANCE IN FY 2002–03 ONWARDS: RPA—*continued*

Item	EAGGF Year	Scheme	pre-RPA P/ Agency	Status of RISK (R/A/G)	Areas of concern to EAGGF	RPA Disallowance	Comments	Corrective action being taken	Estimated cost
PART 1. POTENTIAL ISSUES GIVING RISE TO A RISK OF DISALLOWANCE—<i>continued</i>									
<i>Status Report: Not raised</i>									
<i>Local Risk Register Number</i>									
<i>Reading tbn</i>									
7	1999 2000	Fruit and Vegetables	IB	Green Green Amber	Fruit and Vegetables—Producer Organisations (EAGGF 1999 16.10.98–15.10.99) (EAGGF 2000 16.10.99–15.10.00)	£1,097.61 £6,619.82 £159,126.37	RPA taking recovery action. Overpaid only £930.32 recovered RPA took legal advice on this issue. The disallowance proposed initially by the Commission was £318,252.74 (based on overhead administrative costs of 2%). This should have been limited to 1% and the overstatement of £159,126.37 was reported by RPA to the Commission in July 2002.	Robust response sent to the Commission correcting the auditors findings. Previously unknown factor relating to management costs has been resolved and the overstatement reported to the Commission. The Commission are yet to confirm the outcome of the bi- lateral meeting held with RPA on 28 January 2003.	
<i>Status Report: Not raised</i>									
<i>Local Risk Register Number</i>									
<i>(Not applicable)</i>									
8	1998 1999 2000 2001	UK Honey Programme	Defra Horticulture Division	Green	Measure to improve the production and marketing of honey in the UK (24 months prior to Art. 8 letter 6.5.02 covers period EAGGF 2001 to 2002) (EAGGF 2001 16.10.00–15.10.01) (EAGGF 2002 16.10.01–15.10.02)		The Commission consider that the system in place to administer and control the UK Honey Programme is not entirely in accordance with Community legislation. No assessment of disallowance has been entered owing to the nature of the Commission's request for further information. All charges have been rebutted and the suggestion that VAT has been claimed against EAGGF firmly denied. The total reimbursement for the UK on this measure is under £0.5 million in each EAGGF year with EU monies claimed to offset the cost of bee health work (laboratory costs etc). No payments are made to UK Beekeepers.	A bi-lateral meeting between the Commission and RPA (supported by Defra Horticulture Division) was held on 20.11.02. The discussion clarified a number of misunderstandings raised by the Commission on apparent discrepancies in reconciliation tables; weakness in control by Central Science Laboratory and an allegedly undue charge of VAT against EAGGF. A detailed note responding to the Commission's request for further information was submitted and discussed during the bilateral meeting. Discussions are to continue before any decision is taken.	

Status Report: Annex J

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[Continued

SUMMARY OF POTENTIAL DISALLOWANCE IN FY 2002–03 ONWARDS: RPA—continued

<i>Item</i>	<i>EAGGF Year</i>	<i>Scheme</i>	<i>pre-RPA P/ Agency</i>	<i>Status of RISK (R/A/G)</i>	<i>Areas of concern to EAGGF</i>	<i>RPA Disallowance</i>	<i>Comments</i>	<i>Corrective action being taken</i>	<i>Estimated cost</i>
PART 1. POTENTIAL ISSUES GIVING RISE TO A RISK OF DISALLOWANCE—continued									
<i>Status Report: Annex J</i>									
<i>Local Risk Register Number</i>									
<i>Northallerton tbn</i>									
9	2002 2000	AAPS Market Year 01–02 (16.11.01–31.1.02) NFSA m/y 99–00 (16.10.99–31.3.00) NFSA m/y 01–02 (16.10.01–31.3.02)	RPA	Green	Arable schemes non-respect of payment deadlines (EAGGF 2002 16.10.01–15.10.02) Proposed penalties 16.10.01–31.7.02 Non-textile flax seed £37,757.36 NFSA m/y 01–02 £166,091.61 NFSA m/y 99–2000 £26,373.03 Penalties TBN for 1.8.02–31.12.02 Non-textile flax seed £8,403.17 NFSA m/y 01–02 £9,111.19 Estimated penalties TBN for period 16.10.02–31.12.02 NFSA m/y 01–02 £4,764.44	£226,127.77 £26,373.03	Revised assessment on penalties for late payments up to 31.12.02 following the extension of the payment deadline from 31.1.02 to 28.2.02 for main AAPS. Non- Food Set Aside (NFSA) was not granted extension and remained at 31.3.02. Includes NFSA m/y 99–2000 (see Annex J Item 2). UK reimbursement for Dec 02 reduced by £232,844.24 of which £230,222.00 falls to RPA. Invitation to bilateral should follow before clearance in 2003–04.	The Commission were kept informed at regular intervals of RPA's performance in attempting to make 96% of payments before the payment deadline date. The Commission declined to derogate from the payment deadline but agreed to take into account the difficulties encountered by RPA in regard to the Defra industrial action within the context of Regulation 296/96 when they audit the accounts. Difficulties in meeting the deadline date for Non-Food Set Aside are to be investigated. No further action is proposed.	

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[Continued]

SUMMARY OF POTENTIAL DISALLOWANCE IN FY 2002–03 ONWARDS: RPA—*continued*

<i>Item</i>	<i>EAGGF Year</i>	<i>Scheme</i>	<i>pre-RPA P/ Agency</i>	<i>Status of RISK (R/A/G)</i>	<i>Areas of concern to EAGGF</i>	<i>RPA Disallowance</i>	<i>Comments</i>	<i>Corrective action being taken</i>	<i>Estimated cost</i>
PART 1. POTENTIAL ISSUES GIVING RISE TO A RISK OF DISALLOWANCE—<i>continued</i>									
<i>Status Report: Annex K Local Risk Register Number Exeter 5</i>									
10	2001	Agri-Environment Measures	Defra	Amber	Lack of cross-checks and IACS controls. Reinforced with Rural Development audit. 5% flat rate disallowance on UK total expenditure in EAGGF 2001 (see Actual summary for EAGGF 1999 and EAGGF 2000). UK expenditure in EAGGF 2001 was £32.663 million plus Modulation of £1.7 million (EAGGF 2001 16.10.00–15.10.01)	£1,718,150.00	Failure by Defra to introduce a system of automated cross checks between agri-environment scheme agreements and claims and IACS database for EAGGF 1999 to 2001. Disallowance figure for UK includes modulation for EAGGF 2001 (query raised with EU on whether this element can be subject to penalty).	CSMU and Scheme Managers to maintain pressure on RDS to complete the cross check work and to ensure both the interim and final reports are sent to the Commission by the set deadlines. Depending on the Commission assessment of these reports, bilateral talks with the Commission may be needed. Conciliation is a further option if the threat of disallowance is maintained. Reasonable progress being made by RDS on introducing cross checks and by RPA in processing a proportion of checks following successful inspection. RPA provided the first interim report to the Commission on schedule at the end of September 2002. A final report was to be sent by end-November 2002 but progress has slowed. A worst case scenario was sent to the Commission in mid-November forecasting that 72% of cases will be complete by the deadline with a further 10% awaiting sign-off by an authorising officer. The final progress report was submitted on 29.1.03 and provided the status as at 10.1.03. This reported on the difficulties and the need to resolve an average of 10 warnings on each agreement, all of which required full investigation and resolution by some 200 staff dedicated to the task. The exercise is now substantially complete with 89% (21,929) cross checks completed with a further 7% (1,789) investigated and awaiting final completion. The remaining 4% (1,050) are currently under	

SUMMARY OF POTENTIAL DISALLOWANCE IN FY 2002–03 ONWARDS: RPA—continued

Item	EAGGF Year	Scheme	pre-RPA P/ Agency	Status of RISK (R/A/G)	Areas of concern to EAGGF	RPA Disallowance	Comments	Corrective action being taken	Estimated cost
PART 1. POTENTIAL ISSUES GIVING RISE TO A RISK OF DISALLOWANCE—continued									
Status Report: Annex K									
Local Risk Register Number									
Exeter 5—continued									
								review for early completion. A response from the Commission is awaited but it now looks likely that disallowance will rise from 2% (£0.69 million) to 5% (£1.72 million). Risk status has therefore been raised to Amber. (See Annex A Item 7 for EAGGF 1999 & 2000)	
POTENTIAL DISALLOWANCE: £33,455,871.92 Performance against target of 2.0% = 0.83%									
PART 2. POTENTIAL DISALLOWANCE REIMBURSED									
Status Report: Annex L									
Local Risk Register Number									
Northallerton 1bn									
11a	1996	AAPS	Defra	Green	Arable crops 2% correction m/y 1995 and 1996. Lack of supervision of Field Officers at Bristol RSC.	–£1,459,492.27	Cleared in Financial Year 2000–01 pending ECJ Case which had still to be decided.	The case was taken to Conciliation and although UK arguments were supported, the Commission declined to change it's position. The case was subject to ECJ hearing on 20 June 2002.	
11b	1997	AAPS	Defra	Green	Arable crops 2% correction m/y 1995 and 1996. Lack of supervision of Field Officers at Bristol RSC. (EAGGF 1996 16.10.96–15.10.96) (EAGGF 1997 16.10.96–15.10.97)	–£1,460,205.99	Cleared in Financial Year 2000–01 pending ECJ Case which had still to be decided. Both cases related to inadequate field inspections by one inspector in ex-Defra Bristol Regional Service Centre. Disallowance was extrapolated at a rate of 2% by the Commission to include all AAPS claims to be paid by Bristol RSC.	Although early indications were encouraging it now appears the Advocate General (AG) has suggested to the Court that the UK's case should be rejected. A final decision is awaited from the ECJ which could reverse the AG's recommendation. However, this is thought to be unlikely.	
POTENTIAL DISALLOWANCE REIMBURSED: –£2,919,698.26									
TOTAL POTENTIAL DISALLOWANCE: £30,536,173.66 Performance against target of 2.0% = 0.78% (subject to items 11a and 11b)									

Notes:

- (a) Based on current Treasury method of calculation, ie Rolling two year programme. Therefore for 2002–03, performance is calculated by disallowance applied during 2001–02 and 2002–03 against EAGGF expenditure 2000 and 2001.
In monetary terms, based on eligible EU reimbursement in EAGGF years 2000 (turnover £2,113.50 million) and 2001 (turnover £1,822.53 million), total turnover of £3,936.03 million. The ceiling for FY 2002–03 will be:
Target of 0.5% = Maximum disallowance of £19.68 million.
Target of 2.0% = Maximum disallowance of £78.72 million.
- (b) Continuing with the current method of calculation, performance will be calculated for 2003–04 by disallowance applied during 2002–03 and 2003–04 against EAGGF expenditure in 2001 and 2002. In monetary terms, EAGGF 2001 (turnover £1,822.53 million) and EAGGF 2002 (provisional turnover £1,726.85 million) resulting in total turnover of £3,549.38 million. The ceiling for FY 2003–04 is provisionally:
Target of 0.5% = Maximum disallowance of £17.75 million.
Target of 2.0% = Maximum disallowance of £70.99 million.

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APPENDIX 1

Memorandum submitted by the National Farmers' Union of England and Wales (L 1)

INTRODUCTION

1. The performance of the Rural Payments Agency (RPA) is a matter of key interest to Britain's farmers, impacting significantly upon both their economic well-being and international competitiveness. The NFU therefore welcomes the decision by the House of Commons EFRA Committee to undertake an Inquiry into the Agency's role and administration and is grateful for this opportunity to contribute to its deliberations.

OVERVIEW OF THE RPA'S PERFORMANCE

2. The NFU supported the decision to create the RPA because of the functional synergy that we believed could be achieved from the change. This has been at least partially realised, but we do believe that there has been a deep inconsistency in way that the RPA has performed to date. We commend the way in which the Agency has distanced itself from the culture of the old IBEA and signalled its determination to become a modern, open and customer focused organisation. It has embarked upon an ambitious change programme which, if delivered, has the clear potential to deliver savings, cut bureaucracy and provide a better service to its customers, whom the Agency correctly identifies as being "a person or persons that RPA provides grants and subsidies to." (Quotation from the RPA Business Plan 2002-03). Many of the projects being undertaken as part of this process, such as the digitisation of IACS land parcels and creation of single business identifiers, also have wider strategic importance and can make a significant contribution to the future delivery of rural and agricultural policy across the whole of government.

3. The NFU does not question the determination and commitment of the RPA management and staff to deliver on these objectives and has been happy to work closely with the Agency as a key stakeholder organisation. But we do have to draw attention to the inherent contradiction that, at the same time these plans are being made and the foundations laid for their achievement, the Agency's actual performance to date in making payments to farmers on behalf of the UK government has been extremely poor.

PAYMENT PROBLEMS

4. What farmers need from the RPA in terms of payment can be summarised as follows:

- (a) To satisfy their banks and manage their cash flows, British farmers must know when payments will be made and be able to rely upon the agreed timetable being adhered to.
- (b) To maximise the value of the payments, whose importance to the immediate survival of Britain's beleaguered farming industry cannot be over-stated, and to compete successfully with farmers in other parts of the EU whose governments do set a high priority on paying promptly, payment must also be made as early within the permitted payment window as possible.

5. Neither of these conditions is currently being satisfied by the RPA. Payments arrive erratically and are frequently late. It is also frequently difficult, if not impossible, to understand from the remittance advice notes sent to farmers exactly which schemes and claims a particular payment relates to. Particularly serious problems occurred with both the 2001-02 arable payments and the 2001 bovine scheme payments, which meant that many farmers were not paid at all until well after the final EU deadline had passed. These sorts of problems cause real financial hardship, damage farmers' relations with banks and creditors and could easily be responsible for the failure of otherwise viable farm businesses.

6. In the two cases highlighted above, particular factors were at work that led to problems occurring. However, these situations arose against a background of chronic and persistent under funding, which is compromising the Agency's ability to deal with crises and undermining its ability to make payments efficiently and quickly to its customers even in normal circumstances. For instance, there is a chronic problem with the recruitment and retention of qualified staff within the Agency. Many of those who do work in the RPA regional offices have close connections with the rural community and tell a sorry tale of budgets being juggled and casual staff being recruited and trained, only to be laid off again because funding has run out. We also have concerns about the funding of capital projects, particularly those relating to the upgrading of information technology and the implementation of the RPA's change programme.

7. All of this means that the RPA management is being forced to operate on a fire-fighting basis, taking operational and budgetary decisions that leave very little contingency for error or unforeseen occurrences, in a way that few managers in the commercial sector would tolerate. In our judgement there is a very real danger at present of a snowball effect developing, with the carry-over effect from one year's problems blighting the following year's operations from the very outset.

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8. It should also be stressed that, in contravention of its own code of practice for the making of payments to small businesses, and despite a critical ruling by the Parliamentary Ombudsman in July 2000, the Government resolutely refuses to even partially compensate farmers for its failures by paying interest on late payments, a decision that it has taken out of the hands of the RPA. We believe strongly that the Government should accept immediately the case for it to pay interest in all cases where payments by the RPA are unreasonably delayed through no fault of the claimant.

9. We believe there is a strong case to be made for the operation of the RPA to be independently reviewed, to see how far the financial basis on which it is operating currently is viable and sustainable. This review should include both current and capital expenditure. Having regard for the outcome of that review, Through Defra the Government should undertake to fund the operation of the RPA at a level that will allow the Agency to discharge the responsibilities it undertakes on behalf of the UK government efficiently and promptly. As long as the requirement to make these payments exists under the CAP, farmers have a legitimate right as citizens to expect this to be done.

STAFF TRAINING AND MORALE

10. Full regard must also be paid to the training, motivation and development of the RPA's staff at all levels. It will be obvious to anyone examining the operation of the Agency that the external pressures operating upon it can make it a difficult and highly pressurised environment within which to work. We believe that the people who work for the Agency at all levels are trying to deliver what is being asked of them. In return, the Agency's management must be given the resources and support to continue the positive work that is already going on to improve staff morale and performance.

RELATIONSHIP WITH BRUSSELS

11. The regulatory framework within which the RPA operates is set out in European regulations. We recognise that it is a key part of the RPA's responsibilities to operate the management checks and controls required of it in these regulations and to protect the UK government from the financial penalties that would be imposed if the Commission's auditors were not satisfied that this was being done. It is also important for farmers that it is demonstrated that public money is being spent properly and accountably on the operation of CAP schemes.

12. However, both the Agency itself and its customers are now running on a regulatory treadmill being driven from Brussels. The regulatory regime is being made ever more sophisticated and demanding, with requirements being imposed by policy makers who are several stages removed from the interface between the farmer and the Agency and who, as a consequence, often pay scant regard to the practical problems being imposed on both of these parties by their deliberations. The end product of all of this is all too often bad government. Changes are rushed in to protect the Agency from financial disallowance and are then implemented in an ad hoc and improvised fashion that discredits the RPA, de-motivates the Agency's front line staff and causes serious stress and hardship to farmers.

13. This, again, is an issue of joined up government. When significant regulatory changes are being contemplated in Brussels, it is essential that there is proper co-ordination between whichever part of Defra is involved in negotiating the changes, the RPA and the industry itself. A proper assessment must be carried out of the practicability and desirability of the change and, if necessary, the UK must be prepared to stand out against it being promulgated. If the change is agreed, there must be a proper implementation plan drawn up, again discussed with industry stakeholders and scrutinised to ensure that it is practical and feasible. Only in this way will we be able to avoid a repeat of some of the worst episodes that we have experienced in recent times.

THE EXAMPLE OF THE BRITISH CATTLE MOVEMENT SERVICE CATTLE TRACING SYSTEM

14. Most of our submission has been about the need for improved co-ordination and support between the RPA and other parts of Defra when planning the delivery of services and policy. A prime example of the consequences that can result when co-ordination does break down has been the making of bovine support payments for 2001. The Cattle Tracing System operated by the British Cattle Movement Service (part of Defra) was designed primarily to meet animal health policy objectives. Despite it being known since 2000 that its role would have to change to encompass the verification of support claims, little if any action has been taken to date to ensure that it is capable of carrying out this function. In particular, a planned investment programme to increase the robustness of the database and allow the production of regular update statements for producers has been delayed, so that this improved functionality will not be available before next April. This delay has cost both RPA and BCMS dear in additional costs to sort out the resultant operational problems. It has also imposed a major burden on livestock farmers at a time when they simply cannot afford

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it. This situation is now so serious that we have written formally to the RPA, asking for it to undertake immediately to suspend the use of the Cattle Tracing System for the verification of claims until the necessary remedial action has been undertaken to correct its failings.

CONCLUSION

15. The NFU believes that much of what is going on within the RPA is worthy of support and encouragement. However, there are also serious issues to be resolved, requiring immediate action from core Defra as well as from within the RPA itself. If this action is not forthcoming, farmers will pay a heavy price in terms of continuing poor service and unacceptably delayed payments.

October 2002

APPENDIX 2

Memorandum submitted by Mr Michael Read (L 3)

I enclose two packs of correspondence [not printed] for your perusal, relating to my own situation, and to my near neighbour Hedley Needler, whose letter, informing him of the seriousness of his error, is addressed to Mr Cooper. Not a confidence-building start to such a letter!

Perhaps I could start by trying to explain the current state as to cattle identification, especially as it relates to pedigree animals, particularly relevant to Mr Needler's case.

Pre-autumn 1994, every pedigree society ran a system of a unique herd prefix, followed by a year letter, and an individual number. So, in Mr Needler's case, the first line of the RPA discrepancy list shows a cow L6944NHK M81. The NHK being the prefix, and the M81 being the year letter and individual number. Also, every herd and flock in the country has its own Ministry number, which in Mr Needler's case is L6944.

Since the above date, virtually all societies have moved on to a system of using the ministry passport numbers for the pedigree registration of each animal, but there was an overlap. In the Lincoln Reds' case, we finished using the prefix system on 1 January 2000. So there are three groups of cows in every pedigree breed. A rapidly dwindling pre-autumn 1994 group, identified solely by the prefix system. A group from autumn 1994 to whenever the breed society stopped using the prefix system, who have two identification systems, the prefix one and the passport one and the last group, solely using the passport number.

When passports were issued to all pre-autumn 1994 animals, Mr Needler eventually ended up with his Ministry number plus year letter and individual number, so his first cow's passport reads L6944 M81. Unfortunately, he has always registered his cows on his subsidy claim with the NHK inserted, and has had no problem until the RPA started checking with BCMS. He has also always registered a lot more females on the form to cover any sales or losses during the six months' retention period but has omitted to notify the RPA of the sale and replacement, which he should have done.

As you will realise from my attempt to explain, we are dealing with an extremely complicated system, but one that will simplify itself as the older animals are replaced, and we finish up with an all passport number system. The silly thing is that the RPA have, for 2002, introduced a much less complicated cow subsidy form, involving returning tear-off slips for each cow claimed, so errors should be virtually impossible.

My own situation is much less serious but does involve several issues, as I hope my letter to the RPA explains.

These are not issues of fraud, as the RPA are claiming, but simple human error. We and thousands of others have had the correct number of females on our farms during the residency period, but have, for a variety of reasons, mainly not fully understanding them, not kept entirely to the most complicated rules set out by the RPA for cow subsidy claims.

Could I close by drawing your attention to the second page of the RPA's letter to me, and the words: "When these rules require premium payments to be reduced, we have no scope for discretion". I took this to mean that there is no right of appeal. This is not true, as I found out when I rang the RPA, but I was advised that 80% of cases were thrown out.

The RPA appear to have a very low opinion of our trustworthiness and have, from the word go, introduced the most complicated forms imaginable. All this has achieved has been to increase the amount of errors by farmers. I was interested to learn that the Danes have a paper free, voice recognition passport system.

*Michael Read**9 December 2002*

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Session 2002-2003

FIRST REPORT: Review of the Common Fisheries Policy, HC 110, published 28 November 2002.

SECOND REPORT: Annual Report of the Committee 2002, HC 269, published 23 January 2003.

THIRD REPORT: The Mid-term Review of the Common Agricultural Policy, HC 151, published 21 January 2003.

FOURTH REPORT: Water Framework Directive, HC 130–I and II, published 19 March 2003.

FIFTH REPORT: The Countryside and Rights of Way Act 2000, HC 394, published 18 March 2003.

FIRST SPECIAL REPORT: Government reply to the Committee's Tenth Report of Session 2001-2002, The Role of Defra, HC 340, published 28 January 2003.

SECOND SPECIAL REPORT: Government reply to the Committee's Ninth Report of Session 2001-2002, The Future of UK Agriculture in a Changing World, HC 384, published 4 February 2003.

THIRD SPECIAL REPORT: Government reply to the Committee's First Report of Session 2002-2003, Review of the Common Fisheries Policy, HC 478, published 4 March 2003.

FOURTH SPECIAL REPORT: Government reply to the Committee's Third Report of Session 2002-03, The Mid-Term Review of the Common Agricultural Policy, HC 615, published 8 April 2003.

Session 2001-2002

FIRST REPORT, The Impact of Foot and Mouth Disease, HC 323, published 23 January 2002.

SECOND REPORT, The Countryside Agency, HC 386, published on 13 February 2002.

THIRD REPORT, Radioactive Waste: The Government's Consultation Process, HC 407, published 13 February 2002.

FOURTH REPORT, Disposal of Refrigerators, HC 673, published 20 June 2002.

FIFTH REPORT, Genetically Modified Organisms, HC 767, published 18 June 2002.

SIXTH REPORT, Departmental Annual Report 2002, HC 969, published 17 July 2002.

SEVENTH REPORT, Illegal Meat Imports, HC 968, published 23 July 2002.

EIGHTH REPORT, Hazardous Waste, HC 919, published 26 July 2002.

NINTH REPORT, The Future of UK Agriculture in a Changing World, HC 550– I, published 6 November 2002.

TENTH REPORT, The Role of DEFRA, HC 991, published 14 November 2002.

FIRST SPECIAL REPORT, Government Reply to the Eighth Report of Session 2000-01 from the Agriculture Committee, New Covent Garden Market, HC 272, published 22 October 2001.

SECOND SPECIAL REPORT, Government Reply to the Seventh Report of Session 2000-01 from the Agriculture Committee, The Implementation of IACS in the European Union, HC 273, published 22 October 2001.

THIRD SPECIAL REPORT, Government Reply to the Ninth Report of Session 2000-01 from the Environment, Transport and the Regions Committee, The Draft Water Bill, HC 499, published 14 January 2002.

FOURTH SPECIAL REPORT, Government Reply to the Fifth Report of Session 2000-01 from the Environment, Transport and the Regions Committee, Delivering Sustainable Waste Management, HC 659, published 5 March 2002.

FIFTH SPECIAL REPORT, Government Reply to the Committee's Second Report, The Countryside Agency, HC 829, published 14 May 2002.

SIXTH SPECIAL REPORT, Government's Interim Reply to the Committee's First Report, The Impact of Foot and Mouth Disease, HC 856, published 21 May 2002.

SEVENTH SPECIAL REPORT, Government Reply to the Committee's Third Report, Radioactive Waste, HC 1221, published 24 October 2002.

EIGHTH SPECIAL REPORT, Government Reply to the Committee's Fifth Report, Genetically Modified Organisms, HC 1222, published 24 October 2002.

NINTH SPECIAL REPORT, Government Reply to the Committee's Sixth Report, The Departmental Annual Report 2002, HC 1223, published 24 October 2002.

TENTH SPECIAL REPORT, Government Reply to the Committee's Seventh Report, Illegal Meat Imports, HC 1224, published 24 October 2002.

ELEVENTH SPECIAL REPORT, Government Reply to the Committee's Eighth Report, Hazardous Waste, HC 1225, published 24 October 2002.

TWELFTH SPECIAL REPORT, Government Reply to the Committee's Fourth Report, Disposal of Refrigerators, HC 1226, published 24 October 2002.

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