National Audit Office

DEPARTMENT FOR ENVIRONMENT, FOOD AND RURAL AFFAIRS, AND RURAL PAYMENTS AGENCY

The Delays in Administering the 2005 Single Payment Scheme in England

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 1631 Session 2005-2006 | 18 October 2006

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John Bourn
Comptroller and Auditor General
National Audit Office

12 October 2006

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INTRODUCTION

1 This report reviews the implementation by the Rural Payments Agency and the Department for Environment, Food and Rural Affairs of the European Union's single payment scheme in England. The implementation had cost £122.3 million by the end of March 2006. The Agency encountered difficulties in processing payments due under the scheme, totalling around £1,515 million, and failed to meet its own target to pay 96 per cent of that sum by the end of March 2006.

2 The factors contributing to the difficulties experienced included:

a the Department and the Agency had not fully appreciated the risks and complexities involved in implementing the English model of the single payment scheme. This was, in part, due to a lack of common understanding of the scheme requirements and likely customer behaviours across all key teams within the Department and the Agency;

b an absence of clear metrics against which to assess progress on implementation led to over optimistic upward reporting, and hence a failure to show the true state of progress. As a consequence, the related risks of failure became apparent at too late a stage to enable effective alternative payment regimes to be put in place; and

c in implementing the scheme at the same time as a wider business change programme aimed at delivering efficiencies, the Agency lost too many of its experienced staff and, as a consequence, the knowledge which went with them.

3 Implementation has not provided value for money because the project has cost more than anticipated and is not fully implemented as scoped, planned efficiency savings will not be achieved, relationships with the Agency's customer base have been damaged and there is a risk of substantial disallowance of expenditure by the European Union.

4 The previous Chief Executive was therefore removed from post on 16 March 2006 and at the end of September 2006 remained on leave of absence on full pay of almost £114,000 a year.[1] The new Chief Executive and senior managers at the Agency have demonstrated a business-like approach to learning lessons from what happened with the 2005 single payment scheme and are acting on the recommendations we have made. The Agency is unlikely to be able to remedy all the problems in time for the 2006 single payment, but the management team is developing a recovery plan which they expect to be fully implemented by April 2008.

1 This is less than he was paid in 2005-06 as his pay in that year included a bonus for performance in 2004-05 and a housing allowance. The terms of his departure will be reported publicly when they are settled.

KEY FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5 The European Union's single payment scheme replaces 11 previous subsidies to farmers based on agricultural production with one new single payment based on land area.[2] Landowners and farmers in England who kept their land in good agricultural and environmental condition in 2005 could claim payment from the Rural Payments Agency (the Agency accredited under EU Regulations to administer the single payment scheme in England).[3] Under EU Regulations 96.14 per cent of the Agency's single payment scheme funds of the estimated £1,515 million had to be paid by the end of June 2006 in order to be sure of avoiding late payment penalties.

6 The Department for Environment, Food and Rural Affairs (the Department) regards the model of the single payment scheme in England as more forward looking than those in most other European countries. EU Regulations offered some discretion to Member States over how to implement the single payment scheme and, as Appendix 1 shows, England and Germany were the only countries to adopt the 'dynamic hybrid model' for 2005.[4, 5] Ministers considered that this model was the most suited to giving farmers in England greater freedom to respond to market demands for agricultural products, and to reward environmentally friendly farming practices.[6] The Department recognised that their approach had a high risk of not being delivered on schedule.[7]

7 The Agency spent £122.3 million on implementing the single payment scheme as part of a wider business change programme. The Agency deals with a range of EU subsidies and other activities, such as cattle tracing. From its inception in 2001 the Agency had embarked on a business change programme to improve efficiency but had to revise its approach in November 2003 to include the development of the single payment scheme, which then became the key element of business change. The way the scheme was implemented was designed to achieve efficiency savings by enabling staff in different offices to work on any tasks relating to any claim, rather than for the same individual or small team to process a whole claim from end to end. The Agency anticipated that this 'task based' approach would enable faster processing and improve staffing flexibility.

2 Arable Area Payments Scheme, Beef Special Premium, Extensification Payment Scheme, Sheep Annual Premium Scheme, Suckler Cow Premium Scheme, Slaughter Premium Scheme, Veal Calf Slaughter Premium Scheme, Dairy Premium, Dairy Additional Payments, Hops Income Aid, and the Seed Production Aid.

3 EU Regulations define a farmer as any person or organisation whose holding is situated within Community territory and who exercises an agricultural activity or maintains their land in good agricultural and environmental condition. Similarly, in this report we have used the term 'farmer' to include all people with land eligible for payments, whether or not they farm the land commercially.

4 Under the dynamic hybrid model chosen in England, the value of payment entitlements is based partly on claimants average subsidy receipts, if any, between 2000 and 2002, and partly on a flat rate per hectare. Ninety per cent of the English financial ceiling was used to fund the 'historic' element of entitlement values and 10 per cent to fund the flat rate element in year one of the scheme, and the weighting transfers to the flat rate in incremental steps of five per cent to 15 per cent each year (see Appendix 1).

5 Whereas, according to our consultants, RAND Europe, the German government set a 100 euro de minimis claim limit, the Department did not adopt such an approach because all four UK Departments (the decision having legally to be made at Member State level) concluded that it was the calculation of the entitlement values that absorbed the processing effort and that having done that work it was simpler to make the payment. In addition, the Department introduced three separate categories of land in England, each of which attracted a different flat rate of grant. Set against that in Germany there was a different flat rate in each of the German Lander and different payment rates were set for grassland and arable land. This was an option considered in England but not adopted.

6 Secretary of State for Environment, Food and Rural Affairs statement on CAP reform: implementation of the Single Farm Payment Scheme in England, Hansard 12 February 2004, volume 417 Session 2003-04, columns 1585-1587.

7 Partial Regulatory Impact Assessment on Options for the Implementation of the Reform of the Common Agricultural Policy: Allocation of the single payment entitlements, July 2004 (published at http://www.defra.gov.uk/farm/capreform/background/pdf/RIAv1.pdf).




8 The Agency encountered difficulties in processing payments under the single payment scheme, and failed to meet its own target to pay 96 per cent of the money due to farmers by the end of March 2006. As at 31 March 2006 the Agency had paid £225 million (representing 15 per cent of the £1,515 million single payment scheme funds) to 31,040 farmers (27 per cent of the 116,474 claimants). The Agency made payments of £515 million by the end of April 2006 by streamlining processes for authorising payment once claims had been validated. Taking into account the risk that the remaining payments could otherwise have been deferred beyond the end of June 2006, the Agency made partial payments of £730 million in May 2006 with the agreement of the Department and Ministers.[8] The Agency paid out £1,438 million (95 per cent) against an EU deadline of 96.14 per cent by the end of June 2006, and 96 per cent of sums due by the end of July. By the end of June most farmers had been paid, except for 8,586 farmers (seven per cent) who had not received any money, and 16,168 (14 per cent) who had received partial payments amounting to 80 per cent of their claim. The delays, in particular the Agency's failure to meet its target for payments in March, led to the removal from post of the Chief Executive and increased Parliamentary interest in the performance of the Agency. This report examines the impact of the difficulties experienced by the Agency, the events that led to the delay in paying farmers, and what lessons can be learned and applied in future.

Overall conclusions

9 The single payment scheme is not a large grant scheme compared to some government programmes, but the complexity of the EU Regulations, the complex way in which the Department planned to implement them in England, combined with the deadlines required to implement the scheme for 2005, made it a high risk project. By choosing to integrate the scheme into a wider business change programme, the Agency added to its already considerable challenges. Many of the Agency's difficulties arose, however, from:

- underestimating the scale of the work needed to implement the scheme;
- over optimistic progress reporting; and
- governance structures which, in practice, proved overly complex, and the absence of clear metrics, arising from the lack of appropriate management information that would have allowed the oversight boards to measure progress objectively.

8 The partial payments represented 80 per cent of what the Agency estimated would be the total amount of each claim. The payments were made to those farmers who had not already received a payment and who had a claim of over €1,000.

By the end of March 2006 implementation of the single payment scheme had cost £46.5 million more than the Agency had anticipated in its November 2003 business case. The implementation of the single payment scheme and the wider business change programme had cost £258.3 million, will not achieve the level of savings forecast, and there is risk of substantial costs for disallowance by the European Commission. The farming industry has also incurred additional costs, 20 per cent of farmers have experienced stress and anxiety as a result, and five per cent of respondents to our survey said they have considered leaving farming.

10 The Agency has begun processing the 2006 single payment scheme claims ahead of the European Commission's payment window from December 2006 to June 2007. In view of the large number of changes required, the Agency has confirmed that it is unlikely to be able to remedy all the issues highlighted in our report in time for the 2006 single payment scheme. As a consequence, our recommendations include actions that the Agency should take to improve performance in the longer term as well as in 2006. We have also identified a number of recommendations with broader application to reduce the likelihood of other projects encountering similar problems in the future.

The impact of the difficulties experienced by the Agency

11 The difficulties in making payments have caused distress to a significant minority of farmers. Twenty per cent of the farmers surveyed by Ipsos MORI on our behalf said that the delays had caused distress and anxiety for them and their family. For some, such as many hill farmers, the single payment scheme is a significant proportion of their family income. We estimate that the delays have cost farmers between £18 million and £22.5 million in interest and arrangement fees on additional bank borrowing. The wider knock-on effects on the farming sector are difficult to quantify, but some farmers claim to have postponed purchases, sold crops and livestock early or delayed payments to their suppliers. The Secretary of State for Environment, Food and Rural Affairs announced on 22 June 2006 that, calculated from 1 July 2006, the Agency would pay interest to farmers in respect of delayed payments at one per cent above the London Interbank Offered Rate.[9]

12 We identified a number of errors and procedural weaknesses by the Agency in making payments to farmers in 2006. The Agency's systems were designed to make most payments by automated bank transfer and in a number of cases the Agency used other systems to speed up farmers' receipt of funds, especially where hardship was involved or regulatory deadlines were approaching. The Agency found that one batch of payable orders (amounting to £14.6 million) had not taken account of partial payments which had already been made. The Agency took immediate action in response to the review and stopped all the payable orders before farmers could cash the money. However, the Agency has yet to recover a further £5.4 million of overpayments that were made as a result of an error introduced in the computer system. In addition, as at 15 September 2006 we had identified 34 overpayments and 79 underpayments in our sample of 363 cases which, if replicated across the whole population, are most likely to result in errors of £6.5 million and £17.4 million respectively.[10] Many of the mistakes arose from errors in inputting data onto the computer system. In 105 of the 113 cases, the error related to the flat rate per hectare element, which represented only 10 per cent of the value of claims in 2005.

13 Errors and procedural mistakes in administering the scheme in England have created a risk that the European Commission will impose a financial correction, for which the Department has recognised provisions and contingent liabilities totalling some £131 million in its 2005-06 accounts. The European Commission can disallow expenditure if the Agency has not wholly complied with its regulations, leaving the Department to bear the cost. The figure of £131 million represents the Department's prudent estimate based on the guidance

9 House of Commons, Oral Answers to Questions, 22 June 2006, column 1478.

10 The overpayments and underpayments represent our estimate of the most likely error based on our sample testing as at 15 September 2006. We can be 95 per cent sure that the maximum overpayment would not exceed £20.2 million and the understatements would not be more than £37.1 million. The Agency are still investigating our queries on a further 33 cases from our sample of 363 cases. In these cases, however, the Agency has not yet processed the final payments and any errors found can be rectified beforehand.

available, at this stage, of what the financial corrections could be. Any disallowed amount is subject to clarification and negotiation with the European Commission. The Agency and the Department confirmed that, on occasion, the European Commission had subsequently revised down its initial assessment of potential disallowance. In advance of discussions between the Department and the European Commission it is not certain, however, what disallowance might be incurred on the 2005 single payment scheme.

14 There appears to be little prospect that the Department and the Agency will achieve much of the £164 million efficiency savings they had forecast between 2005-06 and 2008-09. The Agency is hopeful that savings could be made in future, but it has yet to develop a revised business case specifying how this can be achieved. The Agency had anticipated that its new 'task based' system could reduce the number of staff employed by 1,800 posts from a baseline of 3,950 posts. The Agency met its target to reduce its headcount of permanent staff by 1,000 posts by the end of March 2006, at a cost of £38.9 million. At this date, however, there were 2,140 permanent staff, plus 838 casual staff and 1,351 contract staff to deal with outstanding claims for the 2005 single payment scheme. Since then, the Agency has abandoned its task based approach to processing the single payment scheme and, although the volume of work associated with the 2005 scheme may subside, reverting to a 'client based' approach, which is aimed to speed up payments, will not necessarily generate significant savings. Corven Consulting, commissioned by the Department to review the single payment scheme, reported in June 2006 that they have identified potential savings of £7.5 million achievable by March 2009.

15 The project to implement the single payment scheme has cost £46.5 million more than anticipated, and further cost increases are likely. According to the Agency's financial data, the outturn cost at March 2006 of £122.3 million (compared to an original budget in November 2003 of £75.8 million) does not take account of the deferral of some key elements of the system, such as the software required to extract management information. The Agency are also considering plans to commission further development work to improve the performance of the computer system. By March 2006 the implementation of the single payment scheme and costs relating to the wider business change programme totalled £258.3 million.

16 The former Chief Executive was removed from post in March 2006 and at the end of September 2006 remained on leave of absence on full pay. The Department has yet to determine the terms of his departure.[11]

The events that led to the delay in paying farmers

17 The timetable for the implementation of the single payment scheme became very tight following required changes to the original specification of the computer system. The Agency had anticipated that the development of the core IT infrastructure would be complete by December 2004. By this date, however, the Agency had identified 23 changes to the computer systems under development, largely to incorporate changes to EU Regulations and legal clarifications of those Regulations, Ministerial decisions and other changes identified.[12] The Agency considered that failure to implement these changes would have exposed the Department to a significant risk of disallowance by the European Commission. In accordance with EU Regulations the Department had already notified the Commission of the United Kingdom's decisions on implementation of the single payment scheme by 1 August 2004 and did not consider that deferral to 2006 was an option. The revised timetable anticipated completion by September 2005 and deferred the date of the first payments from December 2005 to February 2006.

11 The terms of his departure will be reported publicly when they are settled.
12 An example of the other changes was amendment to the layout of the application form.

18 To keep to the timetable, the Agency implemented key aspects of the IT system without adequate assurance that every component was fully compatible with the rest of the system and supporting business processes. The Agency did not have time to test the system as a whole before it began making payments. Each key element of the system was tested before introduction, but problems arose afterwards as the testing of each system in isolation could not fully simulate the real world environment. The claim validation and inspection system, for example, had issues outstanding when it was implemented (such as computer screens 'freezing'), and the Agency reported that the system had subsequently proved unstable. Accenture and the Agency confirmed to us, however, that the problems experienced in July and August 2005 have now been overcome and that the system is now stable.

19 The Agency underestimated the work involved. The Agency did not adequately pilot test the process of registering farmers, accurately mapping their land and confirming eligibility. It had expected to record 1.7 million parcels of land, but had to deal with 2.1 million parcels. Some of the land related to new claimants, of whom some had very small landholdings, but 36 per cent of the increase arose when existing farmers registered additional land. The Agency consider that most of this additional land should have been registered in previous years under the EU Regulations governing the subsidy schemes that the single payment scheme replaced.

20 The Agency did not have adequate management information to monitor progress and forecast future work effectively. The Agency had deferred the development of software to draw out key information on the progress of each claim in order to focus resources on parts of the system it considered would increase the chances of meeting the tight deadline. As a consequence, the Agency found it difficult to determine how much work remained outstanding on claims each week and how much time it would take to complete them.

21 The Agency had to rely on temporary and agency staff to process claims, but many lacked experience in dealing with such work. The Agency confirmed that it had an induction programme for everyone brought in to work on claims, but our interviews indicate that the training team struggled to deal with the volume of work and some temporary staff had to rely on advice from colleagues and experts in each office on how to deal with claims. The Agency spent £14.3 million on agency staff in 2005-06 to process 2005 single payment scheme claims.

22 Despite limited confidence that the system would be ready on time, development work on the computer system continued and no contingency plan was invoked. In June 2005, the Department informed the Secretary of State and the Minister of Farming that an OGC Gateway™ review had assessed the programme as 'red', meaning that the Chief Executive of the Agency was recommended to take urgent remedial action to address the issues which had been identified. The Department also advised that there was only a 40 per cent confidence that payments would in fact commence, as planned, in February 2006. The same OGC Gateway™ review, Gate 4b, recommended that action was taken to identify and analyse fallback options to safeguard payment deadlines. However, the Department and the Agency assessed that continuing development of the existing computer system provided a greater possibility of meeting the payment target than relying on the contingency system under development by Sungard and Xansa. The Department did not therefore recommend invoking a contingency system or, because it did not believe it was an available option, delay use of the new computer system until 2006.

The lessons to be learned

23 It may have been expensive to develop and maintain suitable contingency arrangements, but the high risks of the new system being developed, and of the potential consequent disallowance by the European Commission of the payments made, might have warranted such costs. The Agency initially developed an alternative, costing £8.4 million, which adapted its legacy IT systems to make 2005 payments. As the contingency relied on the same data as the new system being developed it was mothballed once claims started to be processed using the new system. Continued development work to run the contingency in parallel would have absorbed further resources and spread more thinly the limited number of staff with the required knowledge of the scheme and development skills. Furthermore, many of the difficulties with data accuracy would have arisen with the contingency system and the Agency considered that its ability to process them was understood less than the main system that had been the focus of attention. Nevertheless, as the contingency system would have processed payments on a 'claim by claim' basis, rather than 'task by task', the Agency may have found it easier to resolve outstanding data queries. After mothballing that contingency system and the adoption of an EU Regulation in October 2005 which permitted partial payments, the Agency decided to develop as a fallback a new system to make partial payments which was available from the end of January 2006. This fallback was not invoked because of the perceived progress to enable full payments. A decision to implement an alternative partial payments system based on 80 per cent of claim values was taken in April 2006. Our consultants, RAND Europe, confirmed that in Germany the Federal Ministry of Food, Agriculture and Consumer Protection used its contingency scheme to make advance payments in December 2005, and final payments in April to June 2006. Until the relevant auditor's report in January 2007, however, it will not be clear whether this payment scheme complied with the European Commission's requirements.

24 The Office of Government Commerce undertook four OGC Gateway™ reviews between May 2004 and February 2006, three of which assessed the programme as 'red'. The reports focused on the leadership of the project and Ministerial involvement, IT issues and relations with the contractor. There was some consideration of wider issues that would impact on the success of the scheme but more attention could have been paid to issues such as staff morale and training, or the Agency's relationship with farmers. The Office of Government Commerce is carrying out its own case study review of the Agency's business change programme, as part of which it is reviewing the role of the OGC Gateway™ process and whether there is scope for possible improvements, including the scope for carrying out more 'Gate 0' reviews during a project, which are designed to take a more holistic view.

25 The Department and the Agency put in place appropriate arrangements to oversee progress, but as the deadline got closer, the two key oversight boards took greater control of implementation. We reviewed the structures for overseeing the project early in 2005 and confirmed to the Agency that, in principle, they provided a sound basis on which to manage the project risks. In practice, however, as the programme entered its final, critical, phase the distinction between the two oversight boards became less clear and the conclusions of one board (the CAP Reform Implementation Board) were typically referred to the other (the Executive Review Group) for approval.[13] The OGC Gateway™ Review recommended in June 2005 that one individual should be given responsibility for managing the decision making process. This recommendation was not adopted for the 2005 scheme, but the Executive Review Group agreed that this lesson should be learned for the 2006 scheme.

13 The CAP Reform Implementation Board was responsible for technical programme management. It was chaired alternately by the Chief Executive of the Agency (who was senior responsible owner of the Rural Payments Agency change programme) and the Director General for Sustainable Farming, Food and Fisheries at the Department (who was senior responsible owner of CAP reform). The Executive Review Group was chaired by the Permanent Secretary, and its role was to provide a critical challenge function.

26 The Executive Review Group became embroiled in progressing the project rather than exercise an obvious challenge function. Nearly all the members of the Review Group were senior officials within the Agency and Department with policy or operational responsibilities for the single payment scheme, and there was only one non-executive member appointed. Our interviews with senior officials confirmed that the papers submitted by the Agency for each meeting were difficult to understand. Nonetheless, those officials believe that they were still able to exercise an appropriate challenge function, although this was not always clear from our review of the minutes. The former Chief Executive confirmed to us his belief that the CAP Reform Implementation Board came to supercede his role as senior responsible owner of the delivery of the single payment scheme, its decisions subsequently being ratified by the Executive Review Group.

27 Clearly defined metrics for the Executive Review Group would allow a more objective measure of performance. The former Chief Executive's progress reports to Ministers were unduly optimistic and the progress reports and other papers prepared by the Agency were overly complex, and did not spell out overall performance clearly enough. In the absence of adequate management information systems, robust and objective data were not readily available meaning that clearer output measures (such as the cumulative number of maps registered or the progress of claims through the validation process) which might have triggered corrective actions earlier, could not be set.

28 The Department allowed the Agency too much discretion and independence in implementing the single payment scheme given the potential liability it faced and the consequent risks to its reputation. Senior departmental officials confirmed that they had concerns in late 2005 about whether the Agency's management team could deliver the single payment scheme on time, but felt that making changes at that time would have been more disruptive and raised the risk profile of the project even higher.

29 As the pressure built, day to day communications with farmers proved difficult and a lack of information on the progress of their claims led to stress and frustration amongst the Agency's primary customers. The Agency relies on farmers' cooperation to administer the payments scheme effectively. The absence of key information on the progress of each claim hampered the ability of staff in the customer contact centre to resolve farmers' queries.

30 We recommend that the Agency:

a Undertakes a cost benefit review by the end of March 2007 of the processes and systems it has developed for administering the single payment scheme to determine whether each component is, and is likely to remain, adequate for business needs.

b Reviews the high risk and high value claims paid in 2005 to confirm their accuracy, before it commences the associated 2006 payments.

c Finalise and test plans for a partial payment system for 2006 claims before the payment window commences in December 2006 in case such arrangements prove necessary.

d Contact those farmers who are known to have been overpaid for the 2005 single payment scheme before the end of October 2006 to agree arrangements to recover the money.

e Draw to the attention of farmers the 'payments calculator' available on the Agency's website so that they can check the 'reasonableness' of their 2005 payment before the start of the 2006 payment window. This tool could help identify those farmers who received less than they were entitled to in 2005, and enable any underpayments to be remedied.

f Develop adequate management information systems by Summer 2007 to enable the Agency to track the progress of claims.

31 We recommend that the Department:

a Review the Agency's plans for partial payments for the 2006 single payment scheme to determine whether they are cost-effective and likely to comply with EU regulatory requirements.

b Drawing upon the results of the Agency's review of 2005 high risk and high value claims, develop a robust case by the end of 2006 that could be used in negotiations with the European Commission to minimise the extent of disallowance likely to be imposed.

c Simplify reporting arrangements between the Agency and the Department so that in any future projects there are clear lines of accountability between them.

d Develop a clear set of metrics for this project and any similar projects in future that can be used by senior officials and members of project oversight boards to measure progress objectively. These metrics should include quantifiable, objective measures of outputs. In the context of the single payment scheme it should be possible to relate these measures directly to progress processing farmers' claims, such as the number of maps registered each week compared to target.

e Agree arrangements with delivery bodies at the outset of a project that, if the performance metrics dictate, the Department would instigate a review of progress to determine whether changes are required. Such reviews could be undertaken by internal audit, the Office of Government Commerce or, if appropriate, by inviting the National Audit Office to examine progress.

f Resolve the former Chief Executive's employment status as soon as possible.

32 We recommend that the Office of Government Commerce:

a For the key mission critical projects (where OGC has a direct intervention role), use the Gateway Report, together with the wider evidence, to specify the circumstances in which it would be appropriate for the senior responsible owner to notify the Permanent Secretary and Ministers that a project should either be stopped or fundamentally reviewed. For projects in general, OGC should make use of capability reviews of departments' programme and project management Centres of Excellence (as being piloted by OGC) to ensure that departments' processes give them access to the full body of knowledge on projects so they can take appropriate decisions on whether a project should be stopped or fundamentally reviewed.

b Review, before the end of 2006, how 'red' reviews, and in particular, multiple 'red' reviews, are dealt with in future in terms of guidance to the senior responsible owner and bringing them to the attention of the Permanent Secretary.

c Examine whether existing OGC Gateway™ review procedures pay sufficient attention to the softer aspects of a project, such as staff training and skills, and customer expectations.

PART ONE

There were delays in paying farmers

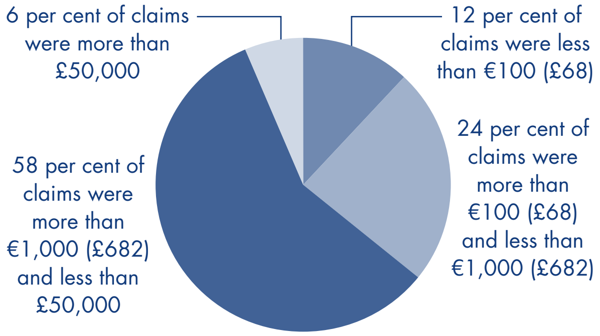
1.1 Farmers in England are entitled to payment from the European Union's single payment scheme as long as each 'entitlement' allocated to them is matched by a hectare of eligible land and other eligibility rules are met. Payment may be reduced if farmers do not keep their land in good agricultural and environmental condition or do not comply with existing EU requirements relating to the environment, animal and public health, and animal welfare. The introduction of the single payment scheme, as part of the Common Agricultural Policy Reforms in June 2003, replaced 11 existing subsidies based on agricultural production. The change in eligibility rules also opened the scheme to some farmers and landowners who had not previously been able to claim support.

1.2 EU Regulations provided some discretion in how the single payment scheme could be implemented by the 15 older Member States. The Department for Environment, Food and Rural Affairs (the Department) agreed to introduce a 'dynamic hybrid' system for the single payment scheme. Under this model, payments to farmers are based partly on their average subsidy receipts between 2000 and 2002 and partly on a flat rate per hectare based on the number of hectares they declared on their applications in 2005. Ninety per cent of each payment is based on the historic subsidy receipts and 10 per cent on the flat rate in year one of the scheme, and the weighting transfers to the flat rate in incremental steps of five per cent to 15 per cent each year. The payments are administered by the Rural Payments Agency (the Agency).[14] Appendix 1 summarises the different approaches to the introduction of single payment schemes by each Member State of the European Union, provides further background information on the scheme introduced in England, and compares the approach adopted with that in Scotland, Northern Ireland, Wales and Germany.

1.3 The number of claimants is not large compared to the number of businesses or individuals affected by other government services, such as the tax or benefits systems, but the EU Regulations for the single payment scheme are relatively complex. By way of illustration, the basic application form for the scheme in 2005 was 24 pages long, with supplementary pages for farmers to detail each parcel of land they had to register. Germany and England were the only two countries to adopt the 'dynamic hybrid model' for 2005 (see Appendix 1). Whereas RAND Europe, our consultants, confirmed that the German government set a €100 de minimis claim limit, the four UK Agriculture Departments (this decision having legally to be made at Member State level) decided not to adopt this approach. The Departments concluded that it was the calculation of the entitlement values that absorbed the processing effort and that having done that work it was simpler to make the payment. As **Figure 1** shows, almost 14,000 claims in England (12 per cent) were for less than €100 (£68). In addition, the Department introduced three separate categories of land in England, each of which attracted a different flat rate of grant. In comparison, in Germany there was a different flat rate in each of the 19 German Lander and different payment rates were set for grassland and arable land. This was an option considered in England but not adopted.

14 The Agency is accredited by the UK Competent Authority under EU Regulations to administer payments.

1 A large proportion of claims in 2005 were for a relatively small amount of money



Source: National Audit Office analysis of Rural Payments Agency data

NOTE

Base: All 116,474 claims.

1.4 The Agency had a performance target to pay 96 per cent of single payment scheme funds by the end of March 2006. In late January, the Farming Minister confirmed that payments would commence in February and that the bulk of payments would be made in March 2006.[15]

1.5 Payments did start in February but by early March it was clear that the Agency was experiencing difficulties: its performance report confirmed that only 2,400 payments had been made in February, amounting to just £19 million of the total £1,515 million that was due. On 16th March the Secretary of State expressed public concerns about progress and replaced the Chief Executive, Johnston McNeill, with an interim Acting Chief Executive, Mark Addison.[16,17] At the end of September the former Chief Executive remained on leave of absence on full pay of almost £114,000 a year and the Department had not yet determined his terms of departure or whether any performance bonus for 2005-06 should be paid.

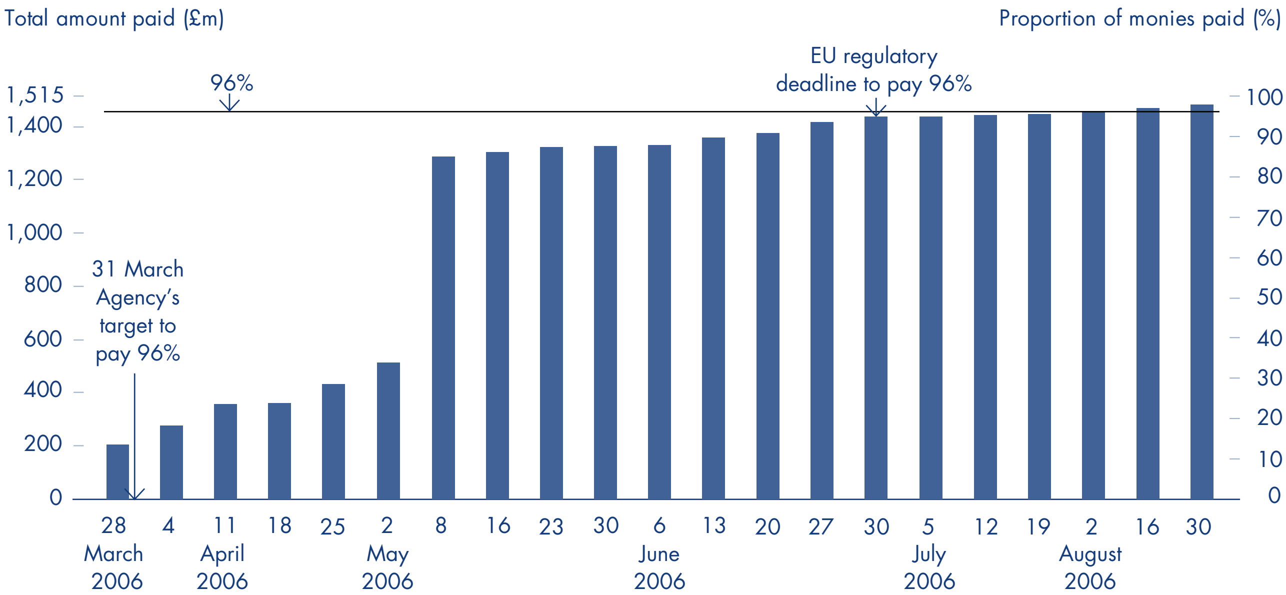
1.6 Our consultants, RAND Europe, confirmed that in Germany, the federal states also experienced difficulties in processing payments. Most of the problems appeared to be one-off difficulties in gathering accurate data. The German federal states made partial payments in December 2005, and final payments before the European Commission's 30 June 2006 deadline. The federal states expect to pay the full single payments for 2006 by the end of December 2006.

1.7 As at 31 March 2006 the Agency had paid £225 million (representing 15 per cent of the £1,515 million single payment scheme funds) to 31,040 farmers (27 per cent of the 116,474 claimants). The Agency paid £515 million by the end of April 2006 by streamlining processes for authorising payment once claims had been validated. Taking into account the risk that the remaining payments could otherwise have been deferred beyond the end of June 2006, the Agency made partial payments of £734 million in May 2006.[18] Although the Agency paid out the bulk of the money due to farmers in England by the EU regulatory deadline of the end of June 2006[19] **(see Figure 2 overleaf)**, and 96 per cent by the end of July, 8,586 farmers had not received any money by the EU deadline, and a further 16,168 had received partial payments amounting to 80 per cent of their claim. There have also been knock-on impacts on processing the separate Hill Farm Allowance Scheme, which provides support to beef and sheep farmers in English 'Less Favoured Areas'. By late June only 6,800 of the 10,500 eligible claimants for this scheme had been paid (64.8 per cent).

1.8 This report examines the events that led to the difficulties experienced, the impact of the delays on farmers, the impact on the Agency's initiative to make efficiency savings, and what lessons might be learned to improve the management of such projects in future. Appendix 2 summarises the data collection and analysis techniques we used to support this report.

15 House of Lords debates, 24 January 2006, column 1062.
16 House of Commons Written Statements, 16 March 2006, Column 104WS.
17 Mark Addison took early retirement in 2006 and has been replaced by Tony Cooper.
18 The partial payments represented 80 per cent of what the Agency estimated would be the total amount of each claim. The payments were made to those farmers who had not already received a payment and who had a claim of over €1,000.
19 Under EU Regulations, 96.14 per cent of the Agency's single payment scheme funds have to be paid by the end of June each year in order to be sure of avoiding late payment penalties.

2 By 30 June 2006 cumulative payments by the Agency amounted to £1,438 million



Source: National Audit Office analysis of Rural Payments Agency data

NOTE

The dates on the horizontal axis refer to the days when the Agency measured progress. As a consequence, there are variations in the intervals between each date.

PART TWO

The implementation of the single payment scheme encountered difficulties that could result in the European Commission imposing a sizeable penalty

The Agency encountered a number of difficulties in implementing the single payment scheme that contributed to the problems in making accurate payments on time

2.1 The implementation of the single payment scheme involved the development of a range of systems and changes in working practices. The system devised by the Agency was complex, reflecting the requirement to comply with the various EU Regulations and because the system involved a 'task based' approach to processing claims. We identified three major factors wholly or partly within the Agency's control that contributed to the difficulties in making accurate payments on time:

- Changes during the development of the IT systems to incorporate EU Regulations and other policy changes reduced the time available for testing before the system went live.
- The Agency underestimated the work involved in mapping farmers' land.
- In the absence of adequate management information, the Agency underestimated the work involved in processing each claim.

Appendix 3 provides a chronology of the main events during the project.

i) Changes during the development of the IT systems to incorporate EU Regulations and other policy and operational changes reduced the time available for testing before the system went live

2.2 In its November 2003 business case, the Agency set milestones for the delivery of the core IT infrastructure by December 2004. The work on developing the IT systems during 2004, however, included a number of assumptions about what the final policy on the single payment scheme would involve and on the detail of the final regulations from the European Commission. The former Chief Executive confirmed that he had highlighted the risks in finalising detailed scheme requirements. By December 2004, the Agency had identified 23 changes to be made to the computer systems, largely as a result of subsequent revisions to EU Regulations and legal clarification of those Regulations, and partly from Ministerial decisions and other changes identified.[20] These changes also led the Agency to revise its forecast of the number of farmers who would be eligible for funding from 90,000 to 120,000.

2.3 Failure to implement the new regulations would have exposed the United Kingdom to greater risk of disallowance by the European Commission. In accordance with EU Regulations the Department had already notified the Commission by 1 August 2004 of the United Kingdom's decisions on implementation of the single payment scheme and did not consider that deferral to 2006 was an option.

20 The changes included a new annex to the form to provide the data necessary to allocate horticultural authorisations, and the functionality to apply a new regulatory penalty for underdeclaring land. There were also changes to the layout of the application form.

However, incorporating the change requests led the Agency to revise their implementation timetable so that the key IT systems would be ready by September 2005 **(see Figure 3)** and to defer some parts of the original system design. For example, it had designed application forms suitable for machine reading, but scoped this out and substituted manual data entry (Release 3a0) instead.[21] At the same time the Agency revised its probability of success from 90 per cent to 70 per cent and deferred the forecast date for making the first payments from December 2005 to February 2006. Although the Agency and its contractor (Accenture) kept to this new timetable, our analysis of events indicates that the pressure to meet deadlines led the Agency to proceed without sufficient evidence of the robustness of the overall business systems.

2.4 The decision to accept IT components before full testing had been satisfactorily completed may have appeared a pragmatic approach to enable payments to commence on time. However, once introduced into the live processing environment, some of the systems encountered problems that delayed the processing of claims. The Agency did not have the time to test the system as a whole before introduction. Each key element of the system was tested before introduction, but problems arose afterwards as the testing could not fully simulate the live environment.[22]

ii) The Agency underestimated the work involved in mapping each farmer's land

2.5 In order to determine what land is applicable to each farmer's claim under the single payment scheme, the Agency used a computerised database: referred to as the Rural Land Register, which the Agency confirmed had been developed to meet pre-existing CAP subsidy rules. The switch from production based subsidies to payments based on land area under the English model of the single payment scheme extended the land area to be captured on that Register. EU Regulations specified that the minimum size of a parcel of land which can be claimed should not be set at more than 0.3 hectares.[23] When transposing this ruling into United Kingdom legislation, however, the Department for Environment, Food and Rural Affairs specified a minimum size of 0.1 hectares, which the Department has confirmed was in line with rules that existed under the old CAP schemes.[24]

3 The planned and actual delivery dates for the core elements of the IT systems for the single payment scheme

IT component	Target date (at November 2003)[1]	Revised target date (at December 2004)[2]	Actual delivery date[3]
Release 1a: Rural Land Register	April 2004	August 2004	September 2004
Release 1b: Customer Register	April 2004	February 2005	February 2005
Release 2: Claim to pay software	December 2004	Merged with Release 3a1	July 2005
Release 3a0: High volume data capture[4]	Not part of the original business case	May 2005	May 2005
Release 3a1: Claims validation and inspection	October 2004	July 2005	July 2005
Release 3a2: Entitlements and end payments	October 2004	September 2005[5]	October 2005

Source: National Audit Office analysis of Rural Payments Agency data

NOTES

1 Delivery dates planned at the time of the Agency's November 2003 Business Case for the Change Programme.

2 Revised delivery dates are, except for mapping the land, those targeted at the beginning of 2005 when the delivery schedule for the single payment scheme was amended to account for CAP reform decisions and clarifications made at the end of 2004. The timetabled delivery date for the Rural Land Register is that given in July 2004 plans. All of the delivery dates, except for the Rural Land Register, were on the project timetable's critical path.

3 The actual delivery dates refer to when the Information Technology became operational and could receive and process data. These dates are taken from the records of the Executive Review Group.

4 The high volume data capture refers to the manual input of every claim form onto the computer system.

5 Accenture confirmed that the Agency agreed to revise the target completion date to October 2005.

21 Manual data entry has been replaced with scanning for the 2006 scheme.
22 On 11 May 2005 the high volume data capture system had to be withdrawn to avoid further disruption to processing, and data capture was progressively reintroduced from 17 May 2005. According to the Agency's papers, Release 3a1 tended to cause computer screens to 'freeze' and the system suffered major stability and performance problems in July and August 2005.
23 Article 14 of EC Regulation 796-2004.
24 One hectare is 10,000 square metres, equivalent to approximately 38 tennis courts, or approximately the same size as Trafalgar Square in London.

2.6 Piloting can be an effective method of identifying problems that might arise during implementation.[25] In this case, however, the Agency did not adequately pilot the land registration and underestimated the number of fields and other parcels of land that farmers would register. This underestimate arose partly because the switch to the single payment scheme enabled more farmers, such as horticulturists and those with small numbers of livestock, to claim (the number of farmers increased from 70,000 in 2004 to 116,000 in 2005), and partly because the Agency had not anticipated how many additional small areas farmers would include.[26] The Agency had estimated that the Register would comprise 1.7 million records (each field of land must be registered), whereas in practice there are 2.1 million records. In three quarters of the 363 cases we examined, farmers had registered extra land. According to progress reports from the Agency, around 1,200 maps were being received each week, compared to an expected 200 a week. Accenture noted that the requirement to register all land in the first year of the single payment scheme required over 100,000 land changes to be processed, compared to an estimated 9,000 changes a year from there on.

2.7 As the Agency did not anticipate the volume of records required, the Rural Land Register has not been designed to handle such demands and there were insufficient in-house resources to process each form sent in by farmers to register their land. By January 2005 there was a backlog of 14,000 forms to process and by September 2005 it had reached 31,000 forms. Despite enhancements made in July and August 2005, the large volume of work needing to be processed over a concentrated period of time led to problems of system stability and availability in 2005. To tackle the backlog, the Agency paid one of its existing contractors, Infoterra (responsible for developing the Rural Land Register) £4.3 million to process forms on its behalf. Infoterra commenced work in October 2005 and the backlog was eliminated by June 2006. The Agency agreed with Infoterra a contract extension for the additional work in April 2006.

2.8 In practice, processing claims in five different offices in the Agency[27] and by contractors led to confusion over what had and had not been done. The Agency and its contractors made, on average, 10 amendments to each farmer's land registration. Our survey of farmers confirmed that 59 per cent had experienced difficulties in finalising a correct set of maps of their land. Over a third (38 per cent) noted that they had received three or more versions of the maps of their land, and five per cent said that the Agency had sent them six or more successive versions of their maps (Appendix 4 summarises the in-depth interviews we conducted with ten dissatisfied farmers).

iii) In the absence of adequate management information, the Agency underestimated the work involved in processing each claim

2.9 The change programme the Agency had begun in 2001 was intended to improve efficiency within the Agency by redesigning processes to handle CAP payments using a task based approach rather than claim by claim. Implementation of the single payment scheme was incorporated into the same model although the former Chief Executive has confirmed that, with hindsight, the impact of a task based approach had not been well understood. Instead of one member of staff dealing with everything on a claim, the computer system enables staff in different locations to process different parts of the same claim. As part of the streamlining of development work to get the infrastructure operational in time, the Agency chose to delay the development of software that would be used to extract management information on the progress, from start to finish, of each claim.

2.10 It became apparent during 2005-06 that, in addition to the problems with the computer system, the Agency did not have sufficient staff to process everything on each claim. Large numbers of agency and temporary staff were brought in to process claims. The Agency does not maintain central records of the number or skills of agency and temporary staff used, but their cost data indicate that £14.3 million out of the £21 million spent on agency staff was for work on the single payment scheme. One staffing agency confirmed, for example, that it had provided the Agency's Northallerton office with 247 staff between October 2005 and August 2006. Although the Agency confirmed that it had an induction programme to train new staff, our interviews with staff indicate that the training team struggled to deal with the volume of work. Temporary staff were buddied up with colleagues to learn how to operate the Agency's bespoke computer applications and deal with claims.

25 *Achieving value for money in the delivery of public services*, the Committee of Public Accounts 17th Report, Session 2005-06.
26 Although most farmers should have previously registered all their land in order to comply with EU Regulations, the introduction of the single payment scheme incentivised them to actually do this. According to the Agency's records, 36 per cent of all new land registered was from existing farmers.
27 Offices in Reading, Carlisle, Exeter, Newcastle and Northallerton.

There is a risk that the European Commission will impose a substantial financial correction as a result of the delays and difficulties experienced

2.11 The European Commission can apply a financial correction if the United Kingdom government does not comply with its rules for the single payment scheme. Any amounts disallowed (and hence paid by the United Kingdom government instead) will depend on the severity of the breach of regulations and on subsequent clarification and negotiation with the European Commission. Further details on how the European Commission determines the extent of any financial correction are at Appendix 5. The Department has included provisions and contingent liabilities totalling some £131 million in its accounts for 2005-06, for potential financial corrections, and for payments made after the European Commission's deadline of 30 June 2006, on the single payment scheme.[28] The figure of £131 million represents the Department's prudent estimate based on the guidance available, at this stage, of what the financial corrections could be. Any disallowed amount is subject to clarification and negotiation with the European Commission and could be substantial given the extent of compliance, procedural and payment errors. The Agency and the Department confirmed that, in the past, they have had some success in mitigating the extent of the European Commission's assessments of potential disallowance. It is not certain, however, whether the likely disallowance for 2005 could similarly be reduced.

2.12 A significant element of the potential disallowance may arise from the delays in processing the single payment scheme and the decision to make advance payments without being able to assure the European Commission that the claims had been validated. The EU Regulations specified that the Agency should establish what payment entitlements each claimant should have by the end of December 2005. The Agency did not write to farmers to confirm entitlements until 14 February 2006 and two thirds of these letters stated that their definitive entitlement was provisional until all validation checks had been completed. In addition, our survey of farmers established that 14 per cent of farmers thought that the maps they had signed off were incorrect. Although the farmers consider many of the errors small, any anomalies identified during inspections by the European Commission could trigger further disallowance penalties.

2.13 We tested 363 claims to establish whether payments were accurate and in accordance with the EU Regulations. The Agency's systems were designed to make most payments by automated bank transfer and in a number of cases the Agency used other systems to speed up farmers' receipt of funds especially where hardship was involved or regulatory deadlines were approaching. The Agency found that one batch of payable orders (amounting to £14.6 million) had not taken account of partial payments which had already been made. The Agency took immediate action in response to the review and stopped all the payable orders before farmers could cash the money. However, the Agency has yet to recover a further £5.4 million of overpayments that were made as a result of an error introduced in the computer system. In addition, as at 15 September 2006 we had identified 34 overpayments and 79 underpayments in our sample of 363 cases which, if replicated across the whole population, are most likely to result in errors of £6.5 million and £17.4 million respectively. We can be 95 per cent sure that the maximum potential value of overpayments would not exceed £20.2 million and that understatements would be no more than £37.1 million. Many of the mistakes arose from errors in inputting data onto the computer system. In the majority of cases, the errors related to the flat rate element, which represented only 10 per cent of the value of claims in 2005 (see Appendix 1). Unless these mistakes are rectified, however, the errors would increase in size each year as a greater weighting transfers to the flat rate element of each claim. The Agency are still investigating our queries on a further 33 cases from our sample of 363 cases. In these cases, however, the Agency has not yet processed the final payments and any errors found can be rectified beforehand.

28 Disallowance was previously recorded in the Agency's financial accounts. The change in accounting treatment reflects the transfer of risks to the Department. The re-classification of CAP spending (from Annually Managed Expenditure to Departmental Expenditure Limited monies) will transfer the requirement to pay the amounts due from the Treasury to the Department.

PART THREE

The difficulties in making payments have caused distress to a significant minority of farmers and undermined the farming industry's confidence in the Agency

A significant minority of farmers experienced stress and financial costs as a result of the late payments

3.1 Twenty per cent of the farmers surveyed by Ipsos MORI on our behalf said that delayed payments had been a cause of increased stress and anxiety for them and their family (see Appendix 4). Five per cent of farmers confirmed that they had considered leaving farming. The problem has been particularly acute amongst those farmers, such as hill farmers, for whom the money from the single payment scheme represents a large proportion of their family income. Of the 14 per cent of farmers in our survey who stated that the single payment scheme money amounted to at least 40 per cent of the total net annual income for their family for the year, 38 per cent felt the delay had led to stress and anxiety. The farming help charities, Farm Crisis Network and the Rural Stress Information Network, confirmed to us that they had experienced a substantial increase in calls to their telephone helplines between March and May 2006. In recognition of the impact of delayed payments the Department has granted an additional £115,000 to rural support organisations to help farmers deal with stress. The Secretary of State for Environment, Food and Rural Affairs announced on 22 June that, calculated from 1 July 2006, the Agency would pay interest to farmers in respect of delayed payments at one per cent above the London Interbank Offered Rate.[29]

3.2 The majority of farmers responding to our survey said that delay in receiving payment had not caused them to take action to save or raise money. Nonetheless, a significant proportion said they had done so 'entirely' or 'mostly' as a consequence of delays in receiving payment. Farmers who had expected to receive payment in February or March and who would otherwise have experienced a cash flow difficulty, as **Figure 4 overleaf** shows, took out, or extended, financial loans, sold crops or livestock earlier than anticipated or, in some cases delayed payments to their suppliers. For many farmers the direct effect of late payment was to force them to postpone purchases or investments. Whilst the range of actions taken make it difficult to calculate the cost accurately, drawing on the advice we received from the British Bankers' Association, we estimate that the delays could have cost farmers between £18 million and £22.5 million in interest and arrangement fees on additional bank loans and increased short term borrowing on overdrafts. This figure does not include any estimate for interest foregone by farmers whose bank accounts are, or would have been, in credit, or any knock-on effect on the wider agricultural industry.[30] A number of suppliers' representatives and other associations in the farming industry considered that their businesses had been affected by delays in settling their accounts and a decline in other business activities, such as the trade in farm machinery.

29 House of Commons, Oral Answers to Questions, 22 June 2006, column 1478.

30 A member of the British Bankers' Association has provided an estimate that the interest foregone by farmers across the United Kingdom due to delays in payment amounts to approximately £3 million.

3.3 The delays in making payments have undermined confidence amongst farmers that the Agency will deal with their 2006 claim effectively.[31] A common theme of the focus groups and other interviews we held with farmers was that the relationship between farmers and the government had deteriorated. A number of farming industry associations and representative bodies noted that this breakdown in trust had deterred farmers from participating in other government initiatives, such as the Entry Level Stewardship Scheme and the Higher Level Stewardship Scheme.[32]

More effective liaison with farmers and landowners would have reduced the adverse impact on the industry

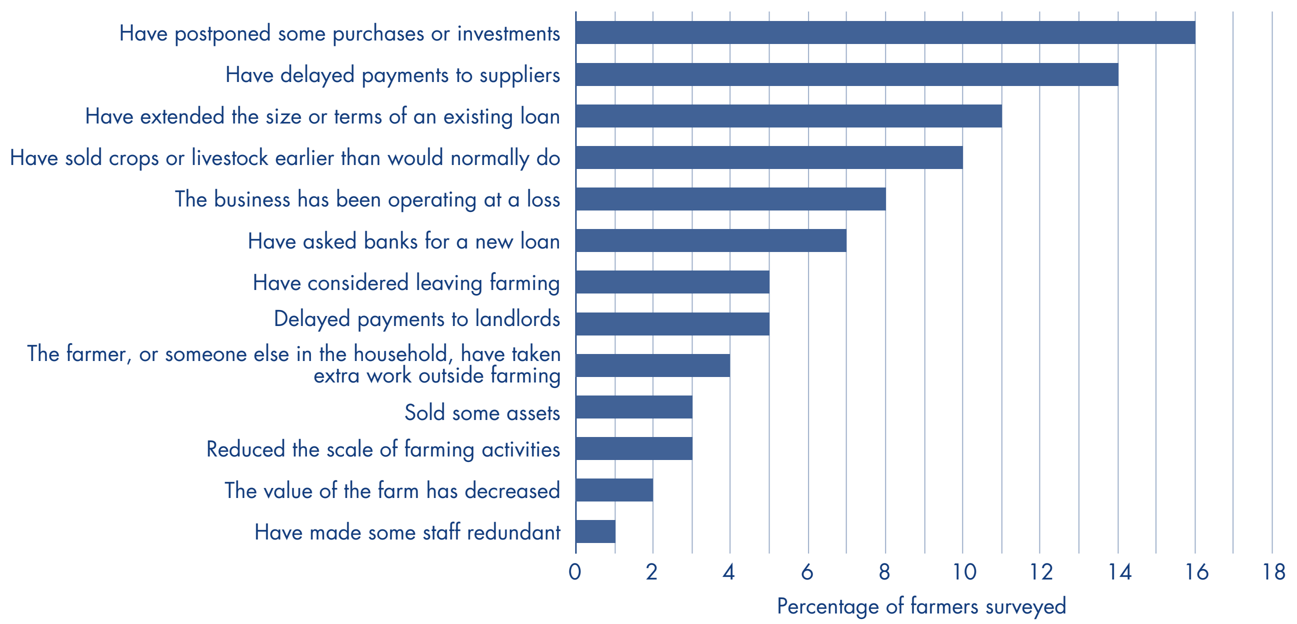
3.4 The Department relies upon close collaboration with farmers in order to administer the single payment scheme and other Common Agricultural Policies effectively. In addition to the guidance on the Agency's website[33], the Department and the Agency undertook a number of initiatives between 2003 and 2005 to explain the single payment scheme to the farming industry **(see Box 1)**.

3.5 The application form for the single payment scheme proved difficult to understand and complete for some farmers, especially those who had not previously claimed any CAP payments (see Appendix 4). The guidance handbook was over 100 pages long and included technical phrases or words that some farmers found difficult to understand:

"The language was odd: it was written by someone who does not know very much about the farming business but knows about government processes."

"There were words used that were quite unnecessary. 'Caprine' is an example. Why not put the word 'goat'?"

4 Farmers have taken mitigating actions in the last 12 months entirely or mostly as a result of not receiving their payment when they expected



Source: National Audit Office Survey, June 2006

NOTES

1 Figures rounded to the nearest percentage point.

2 Base: 957 farmers.

31 Our survey found that six per cent of farmers were 'very confident' that the Agency will deal with their 2006 claim effectively, and 27 per cent were 'confident', compared to 28 per cent who were 'not very confident' and 26 per cent who were 'not at all confident'. The remainder were 'neither confident nor unconfident' (11 per cent) or 'did not know' (two per cent).

32 The Entry Level Stewardship Scheme aims to tackle environmental problems, such as loss of biodiversity, by paying farmers £30 per hectare in return for environmental management of their farm. The Higher Level Stewardship Scheme aims to build on the Entry Level to deliver significant environmental benefits in targeted areas.

33 www.rpa.gov.uk

3.6 Our survey of farmers and landowners confirmed that 64 per cent of respondents had sought to contact the Agency in order to seek an update on the progress of their claim. According to the Agency's records, in 236 out of the 363 claims we examined, the farmer or their agents had written to the Agency to amend their claim, query something or to make a complaint. One hundred and twenty of the claimants had written on three or more occasions. The management information also shows that the Agency received over 271,000 telephone calls between January and June 2006, and all the calls were answered quickly with an automated response and menu of options. Some of the automated responses were not particularly helpful, however, and discouraged farmers and landowners from pursuing their query. When we tested the telephone call centre response in June 2006, automated messages told callers that *'…there is nothing that the call centre staff can tell you about your payment'*. Farmers were discouraged from pursuing queries with the message *'If you contact us, this will divert resources away from the urgent tasks of completing validations and making full payments'*.

3.7 The farmers and landowners we interviewed as part of our survey had differing views on the extent to which the Agency was able to resolve their queries. Whilst the majority (55 per cent) confirmed that the Agency had 'completely' or 'partially' resolved their query, 21 per cent said 'not at all' and 22 per cent believed the Agency had 'further complicated the issue'. On occasion, the written correspondence indicated that the farmer had received an unsatisfactory reply **(see Box 2)**, and a number of the farmers we interviewed raised concerns about the quality of service received (see Appendix 4). Twenty two per cent called for more competent and knowledgeable staff able to answer questions by telephone, and 17 per cent made a plea for improved communications to keep farmers more informed.

3.8 As the implementation of the single payment scheme progressed, senior staff at the Agency and the Department continued to liaise regularly with the relevant unions and trade associations. Given the lack of management information, more general communications tended to centre around reassuring farmers that payments would be made, rather than giving specific information on when issues would be resolved and individuals' payments would be processed. The Rural Stress Information Network found that a lack of information was by far the greatest cause of frustration and complaint within the farming community.

3.9 The Agency will require the co-operation of farmers to resolve the outstanding problems from the 2005 single payment scheme. In Germany, perhaps as a result of the federal nature of the government, our consultants (RAND Europe) noted that there was close collaboration between the relevant agencies and the farming sector during implementation and farmers were aware that a partial payment solution would be used. As a result, RAND Europe found that farmers in Germany are relatively confident that the scheme will operate more effectively in 2006.

BOX 1

Initiatives by the Department and the Agency to explain the single payment scheme to the farming industry

- **Seminars and roadshows.** The Department confirmed that a series of 32 roadshows were attended by over 8,500 farmers, and an advance briefing was provided for over 150 industry advisors. The roadshows were supported by CD-ROM, DVD and video, including key excerpts from the presentations for those unable to attend.
- **Stakeholder meetings.** The Department and the Agency held quarterly industry forum meetings, fortnightly technical briefings and made presentations at stakeholder events such as the National Farmers' Union conference.
- **Published information.** The Department confirmed that farmers were provided with advance information on the scheme in a series of six information booklets (between July 2004 and April 2005) and a draft version of the new application form to help them familiarise themselves with what would be required. Question and answer information was also available on the Department's and Agency's websites.

BOX 2

Case examples of the concerns raised by farmers about the quality of service they had received from the Agency

Farmer 1: According to the correspondence we examined, the applicant received five sets of maps from the Agency, all of which were wrong. The farmer contacted the Agency on three occasions to confirm advice on how to deal with multiple land holdings. On each occasion the farmer was told that the correct action was to submit multiple claim forms with the same identification number (each farmer is given a unique identification number). Six months after the submission of these claims, the Agency contacted the farmer to confirm that only one application could be received for each identification number.

Farmer 2: According to the correspondence we examined, the applicant's partnership had changed and thus a change form was submitted with their application. In June 2005, the farmer was informed by the Agency that they had been issued with a new identification number. The farmer then received a letter in October 2005 stating that the details of the original identification number had been updated and thus could be used. After several letters from the farmer's agents, the Agency confirmed the correct identification number to use in February 2006.

PART FOUR

The single payment scheme has cost more to implement than expected and many of the financial savings forecast are unlikely to materialise

4.1 The introduction of the single payment scheme is part of a wider business change programme intended to deliver efficiency savings. The Department, with its agencies and non-departmental public bodies, has a Gershon Review target to make efficiency gains of £610 million plus a net reduction of 2,400 posts.[34] The change programme within the Agency was expected to deliver a large proportion of these savings.

4.2 Our review of the savings forecast from the introduction of the single payment scheme and the wider change programme indicate that a significant proportion is unlikely to be realised. The Agency had a forecast in its updated business case (January 2005) of a net reduction of over 1,800 posts from its baseline of 3,950 posts. The Agency reduced its headcount, meeting its target for 2005-06 to reduce permanent staff numbers by 1,000 at a cost of £38.9 million. However, the difficulties experienced in processing the 2005 claims have led to the recruitment of additional agency staff to handle the workload. As at 31 March 2006, the Agency had 2,140 permanent staff, 838 casual staff, and 1,351 contract staff, totalling 4,329 people.[35] Whilst staff numbers required could start to fall once the problems with the 2005 claims are resolved, the Department's and Agency's forecast of £164 million of savings between 2005-06 and 2008-09 is optimistic.[36] The Department commissioned Corven Consulting to undertake a review of the single payment scheme. Corven Consulting reported in June 2006 that it will take until 2008 to get the single payment scheme stable and that the total net savings were likely to be £7.5 million by March 2009.

4.3 According to the Agency's business case in November 2003, the implementation costs of the single payment scheme were expected to amount to £75.8 million out of the £253 million cost of the scheme and the wider business change programme **(see Figure 5)**. The original estimates were based on the Agency's early anticipation of what the single payment scheme might involve and, therefore, these figures excluded the cost of subsequent changes in response to further EU Regulations. Implementation costs have since increased, however, and outturn to the end of March 2006 is £122.3 million. The increased cost of the single payment scheme does not take into account the 'de-scoping' of the project during 2005 in order to focus resources on the core systems work, such as the deferral of the computer package to extract management information. In addition, the wider business change programme costs do not take into account the cancellation of Release 4 (to pay refunds to farmers trading with countries outside the European Union), estimated to cost £7.6 million.

34 Further details can be found in the NAO report *Progress in Improving Government Efficiency* (HC 802-1, Session 2005-06).
35 The Agency spent £14.3 million on agency staff to process 2005 single payment scheme claims.
36 According to the Agency's business case update in January 2005, the savings to the Department and the Agency would be £12 million in 2005-06, £48 million in 2006-07 and £52 million a year thereafter.

4.4 The implementation cost appears to be expensive, given the relatively small number of farmers involved although comparisons should be treated with some degree of caution. Our review of an earlier value for money report of selected IT schemes in central government[37] suggests that other IT schemes tended to cost less, or deal with a much larger volume of customers. Each IT system is different, however, and the single payment scheme in particular had to comply with the relative complexity of EU Regulations.

5 The outturn costs at 31 March 2006 compared to the original estimated cost of the single payment scheme and the wider business change programme

Area of expenditure	Estimated cost (November 2003)[1] £m	Outturn (at end March 2006) £m
Implementation of the single payment scheme		
Accenture contract[2]	27.5	50.3
Rural Land Register[3]	6.8	16.1
Contingency solution	1.9	8.4
End to end system testing	–	3.6
Project management	7.4	7.7
Entitlements calculator	3.2	3.2
Entitlements data	5.6	5.5
Business process re-engineering	14.3	9.3
Design assurance	–	1.7
Establishing Data Management Unit	5.0	3.6
Customer communications[4]	1.2	9.8
Training[5]	–	1.5
Adapting the Oracle financial system to make partial payments	–	1.0
Other	2.9	0.6
Sub-total	**75.8**	**122.3**
Wider business change programme		
Staff resettlement costs[6]	86.8	44.3
Programme management	15.7	10.2
Project management & support	2.9	5.6
IT infrastructure	17.0	23.1
Continuation of legacy systems	15.6	12.7
Oracle financial systems	10.3	13.3
System interfaces	2.6	4.0
Building works	2.8	1.2
Training	4.4	1.4
Design assurance	2.5	3.0
Data migration	3.9	2.1
Other	12.7	15.1
Sub-total	**177.2**	**136.0**
Total	**253.0**	**258.3**

Source: National Audit Office analysis of Rural Payments Agency data

NOTES

1 The Agency's most recent business case (in January 2005) forecast total costs for the change programme, including the single payment scheme, to be £301.7 million.

2 The increases in the Accenture contract are largely due to changes in the scope of the work required.

3 The increase in the cost of the Rural Land Register includes £9.8 million on mapping applicants' land.

4 The increase in the costs of customer communications includes £9.2 million on communicating with farmers.

5 The Agency spent £1.5 million on training agency and other staff on how to use the system.

6 The reduction in staff resettlement costs is due to the average cost of redundancy being less than anticipated, the deferral of Release 4 (to develop a system to pay refunds to farmers trading outside the European Union), and because a greater number of operational and support staff have had to be retained than anticipated to work on the single payment scheme. The cost comprises severance and early retirement costs of £38.9 million, continuity payments to staff of £4.5 million and other expenditure of £0.9 million.

37 *Improving IT procurement*, HC 877, Session 2003-04.

PART FIVE

Better management of the risks could have reduced the disruption experienced

Despite limited confidence that the system would be ready on time, no contingency plan was invoked

5.1 The Office of Government Commerce undertook four OGC Gateway™ reviews between May 2004 and February 2006 (see Appendix 6). The former Chief Executive of the Agency confirmed to us that he placed great value on these reviews, and that he shared OGC findings and conclusions with the Department. Three of these four reviews were 'red', which signified that immediate action was necessary, and the Agency took action in response to the recommendations made. Our review of the OGC Gateway™ reviews between May 2004 and February 2006 found that the reports focused on the leadership of the project and Ministerial involvement, IT issues and relations with the contractor. There was some consideration of the wider issues that would impact on the success of the scheme but more attention could have been paid to such issues as staff morale and training, or the Agency's relations with farmers. The OGC Gateway™ reviews did, however, express concerns in their conclusions that the programme was high risk. The review in June 2005, for example, noted that *'The programme is in considerable difficulties... Our assessment is that the current plan to implement payments in February [2006] … would require a very fair wind to succeed. And recent experience suggests that there will be much bad weather to cope with.'*

5.2 The Department informed the Secretary of State and the Minister of Farming in June 2005 that the OGC Gateway™ review carried out at that stage had assessed the project as 'red', meaning that the Chief Executive in the Agency was recommended to take immediate remedial action to address the issues which had been identified. The Department also advised that the Agency's confidence of making payments by February 2006 was only 40 per cent (and 75 per cent for payments in March 2006). The Department did not, however, recommend invoking a contingency system, because it believed that doing so would have involved greater risk to the payment timetable, or delaying use of the new computer system until 2006.

5.3 The Agency had commissioned Sungard and Xansa to develop an interim legacy-based system to be deployed in the event of a major failure affecting delivery of the core IT systems being developed. A feasible, stop-gap measure was developed at a cost of £8.4 million. In late 2004, however, the Department and the Agency decided, with the agreement of the Office of Government Commerce, to 're-position the contingency as part of a limited fall-back option'. The contingency was seen as only a short-term solution and the core IT systems being developed were then at a more advanced stage. The former Chief Executive confirmed that there were concerns that data transfer between the contingency and primary systems could have caused difficulty, and that since the payments component had not been fully built and tested a complete end to end contingency was not available. Continuing work on the contingency system was thought to be a possible distraction from the work still to be done on the core IT system and the system was mothballed.

5.4 There were a series of submissions to Ministers between February 2005 and July 2005 on whether to develop a contingency that could be used to make advance payments to farmers, but there was no reference to the work done on the contingency to make full payments. Two options were considered: developing a separate IT system that would rely upon data from 2004 to make advance payments; and re-configuring the new computer system so that 2005 data could be used to make advance payments. The Department advised Ministers against the latter as this was likely to reduce the chances of delivering the computer systems required for the single payment scheme on time. Instead they pursued the option of developing a separate system using 2004 data.

5.5 Departmental officials discussed the feasibility of the proposed contingency with the European Commission between March and July 2005. According to the submissions to Ministers, the Commission would not at that stage accept any such advance payment option, which was based on 2004 data, unless each farmer had a bank guarantee in case monies had to be repaid. As the only other contingency option for making advance payments had already been rejected, the Department advised Ministers to proceed with developing the core IT systems required for the single payment scheme and to mothball any plans to make advance payments.

5.6 In Germany, our consultants RAND Europe found that the government also sought approval from the European Commission to make advance payments. The Federal Ministry of Food, Agriculture and Consumer Protection in Germany had discussed the issue with the European Commission in 2004, made a request for the necessary EU legislation, along with the UK and other Member States, in September 2005, and made advance payments in December 2005. According to RAND Europe, the German government paid out 78 per cent of the total value of the payments in December 2005, and final payments were made between April and June 2006.[38] Following the adoption of the EU Regulation in October 2005 which permitted partial payments, the Agency decided to develop as a fallback a partial payments system which was available from the end of January 2006. This fallback was not implemented because of the perceived progress to enable full payments. A decision to implement an alternative partial payments system (based on 80 per cent of claim values) was taken in April 2006.

In practice, arrangements for oversight proved complex and the key oversight boards lacked the necessary tools to identify and address issues as they arose

a) The structures put in place to oversee the programme were complex and as the deadline got closer, the two key oversight boards took greater control of implementation

5.7 We undertook a review of the structures put in place to oversee the progress of the programme in early 2005 and presented the results to the Executive Review Group in April 2005. We confirmed that, in principle, the structures put in place would provide a sound basis through which to manage risks. There were a number of different governance bodies, but the principal boards set up to monitor progress and determine strategic priorities were:

- **The CAP Reform Implementation Board (CAPRI)** was alternately chaired by the Agency's Chief Executive, who was senior responsible owner of the Agency's change programme, and the Director General for Sustainable Farming, Food and Fisheries in the Department, who was senior responsible owner of CAP reform. CAPRI was responsible for technical programme management.
- **The Executive Review Group (ERG)** was chaired by the Department's Permanent Secretary. The ERG considered papers previously reviewed by the CAPRI board and its terms of reference were to provide a critical challenge function.

5.8 Our analysis of the minutes of this Group indicate that, in practice, the Executive Review Group took on a greater part of the decision making role from the CAPRI board in the latter stages of the project. Nearly all the members of this Group were senior officials within the Agency and the Department with policy or operational responsibilities for the single payment scheme. The changing role between the two boards led to some confusion amongst officials as to the respective remit of each board and who was responsible for making decisions. Proposals were often submitted to the CAPRI board for approval, before discussion at the Executive Review Group and then being put to Ministers for approval. The former Chief Executive confirmed to us his belief that the CAPRI board came to supercede his role as senior responsible owner of the delivery of the single payment

38 Although RAND Europe has confirmed that payments to farmers in Germany were completed before the end of June 2006, it is too early to confirm whether payments complied with rules set down by the European Commission or if any disallowance is likely to be imposed.

scheme, its decisions subsequently being ratified by the Executive Review Group. The Office of Government Commerce recommended in June 2005 that one individual should be given responsibility for managing the decision making process. This recommendation was not adopted for the 2005 single payment scheme, but the Executive Review Group agreed that this lesson should be learned for the 2006 single payment scheme.

b) Clearly specified metrics and milestones would have helped to assess performance and to overcome any inherent optimism amongst staff about progress

5.9 There is a risk that individuals caught up in implementing a project find it difficult to assess progress objectively. The Treasury's Green Book on Appraisal and Evaluation recognises the risk of inherent optimism in project management and recommends that large or complex projects should be broken down into smaller tasks with more easily defined and achievable goals. Similarly, the Committee of Public Accounts recommended in 2002 that when departments analyse risk, they should take care that their analysis is comprehensive and not based on unwarranted optimism.[39]

5.10 By mid March 2006 the Agency and the Department clearly recognised that they would not meet the target to pay 96 per cent of the monies due under the single payment scheme by the end of that month. At that point substantial changes were made to the way the project was implemented. There were clear indications in late 2004 and early 2005, however, that the project might not deliver on time (see Appendix 6). The former Chief Executive of the Agency confirmed that he had held informal bilateral meetings with the Permanent Secretary at the Department, and he also provided updates on progress to Ministers each week between October 2005 and March 2006.

5.11 In practice, however, senior officials and Ministers may not have recognised the true risk that the project might not deliver on time, with the consequent impact this would have on the reputation of the Agency and across Government more widely. Our review of the submissions to the Executive Review Group and the CAPRI board established that the papers prepared each month were long, technically complex, and did not routinely draw out key messages or actions required for the board to consider, although many reports were in the form of slide presentations designed to be talked through by senior managers or consultants. Most of the senior staff we interviewed confirmed that they found it difficult to get to grips with the detail in the progress papers and that the documents were often delivered just before a meeting. Nonetheless, members of the Executive Review Group believe that they were still able to exercise an appropriate challenge function, although this was not always evident from our review of the minutes. Our review of the progress updates to Ministers from the former Chief Executive found that the reports tended to be upbeat in nature and did not sufficiently measure progress in an objective way or routinely flag up the risks of failure.

c) Despite some difficulties at the outset, the Agency is confident that Accenture is delivering against its contract

5.12 In order to avoid delays in starting work on the single payment scheme, the Agency invited an existing contractor (Accenture) to take on the work of developing the single payment scheme. The Agency had already invited tenders for its wider business change programme through the Official Journal of the European Community in October 2001, and let a contract in January 2003. The Agency and Accenture re-negotiated the contract in late 2003 to reflect the revised work programme.

5.13 The Agency and the Office of Government Commerce consider that Accenture's performance fell short of expectations in the early stages of the programme and this led to a deterioration in their working relationship. The January 2003 contract (prior to the single payment scheme contract) was based on a partnership approach to working and Accenture were to help the Agency develop a Business Process Re-engineering exercise. The Agency considered the review unsatisfactory, however, and refused to pay for it. From there on the Agency re-designed its own business processes and Accenture focussed on the development of the core IT infrastructure required. The Department confirmed the introduction of monthly progress meetings between the Department's Permanent Secretary and Accenture's relevant Senior Partner helped to improve the relationship.

5.14 In its January 2005 Gateway review, the Office of Government Commerce expressed concerns that there remained significant weaknesses in Accenture's management of their testing team and the Agency issued a letter alleging breach of contract in February 2006 over concerns about the level of systems downtime. Accenture refuted the contents of the letter and in the same month, the Office of Government Commerce concluded that relations had improved and that Accenture was performing to a stronger standard. Their report noted that the stability of the technology had improved and the testing regime was now more rigorous.

39 *The Public Private Partnership for National Air Traffic Services Ltd*, Committee of Public Accounts, 48th Report Session 2002-03.

APPENDIX ONE

The introduction of the single payment scheme by different Member States of the European Union and background information on the scheme adopted in England

1 EU Regulations provided some discretion to the 15 'older' Member States as to how they might introduce the single payment scheme. There were three options available:

- **Static Historic Rate.** Payments are based on the average direct payment receipts of each farmer between 2000 and 2002 under the previous subsidy schemes.
- **Static Hybrid Rate.** Payments are based partly on the average direct payment receipts of each farmer between 2000 and 2002, and partly on a flat rate per hectare of land.
- **Dynamic Hybrid Rate.** As with the Static Hybrid Rate, payments are based partly on the historic rate and partly on the flat rate per hectare. Over time, the historic rate proportion declines until payments are wholly based on a flat rate.

2 EU Regulations specified that the 15 'older' Member States could introduce the single payment scheme in 2005 or 2006, but set a deadline of 1 January 2007 by which all member states should put the scheme into operation. The United Kingdom government was one of ten countries to opt to introduce the scheme in 2005; the others chose to wait until 2006. Within the United Kingdom, the Welsh Assembly and Scottish Executive adopted the Static Historic Rate, Northern Ireland opted for the Static Hybrid Rate and England opted for the Dynamic Hybrid Rate **(see Figure 6)**. What this meant for farmers in England who had already been receiving CAP subsidy was that 90 per cent of payments in the first year were calculated by reference to the amounts which they had received in the past. The remaining ten per cent was calculated on a flat rate per hectare. A further complexity in the scheme introduced in England (although not in the rest of the United Kingdom) was that eligible land was subdivided into three separate categories, each of which attracted a different flat rate grant.[40] This was so that payments under the single payment scheme would more closely reflect land conditions and productive capacity and, therefore, the existing subsidy payments, limiting redistribution of subsidy from more productive land to moorland.[41]

The single payment scheme in England is administered by the Rural Payments Agency

3 The Department liaised with the European Commission over the Common Agricultural Policy Reforms and has transposed the requirements into legislation in England. The devolved administrations in Scotland, Wales and Northern Ireland implemented their own changes.[42] The Agency is accredited under EU legislation to administer payments in England on its behalf **(see Figure 7 overleaf)**.

6 The 'older' Member States chose to implement the single payment scheme using three different payment models and from two different dates

	Static historic rate	Static hybrid rate	Dynamic hybrid rate
Starting with claims for 2005	Austria Belgium Ireland Italy Portugal Scotland Wales	Denmark Luxembourg Sweden Northern Ireland	England Germany
Starting with claims for 2006	France Greece Netherlands Spain		Finland

Source: National Audit Office summary of data from the Department for Environment, Food and Rural Affairs

40 €3.36 per hectare per year for moorland within the upland Severely Disadvantaged Area (SDA), €23.59 per hectare per year for the rest of the upland SDA, and €28.2 per hectare per year for all land outside the upland SDA.

41 Written Ministerial Statement by the Secretary of State for Environment, Food and Rural Affairs on definition of the English regions for the single payment scheme, 22 April 2004, Hansard Volume 420 Session 2003-04, columns 26WS – 28WS.

42 Under the Concordat on the Co-ordination of European Policy, it is the responsibility of the lead Whitehall Department (in this case the Department for Environment, Food and Rural Affairs) to notify the devolved administrations at official level of any new EU obligation which concerns devolved matters. It is then for the devolved administrations to consider how the obligation should be implemented and enforced in their area.

7 Paying agencies in each of the devolved administrations in the United Kingdom administer European Commission funding for the single payment scheme

Institution	Functions	Accountability	NAO role
European Commission	Administers the Common Agricultural Policy (CAP) across the European Union Funds the single payment scheme from payments (in arrears) from the European Agricultural Guidance and Guarantee Fund (EAGGF)	Accountable to the Council of Ministers and the European Parliament	
Department for Environment, Food and Rural Affairs (the Department)	The Department's objectives include more customer focused, competitive and sustainable farming; a more competitive and sustainable food industry; and further CAP reform The Department negotiates CAP reform with the European Commission on behalf of the United Kingdom Government and the devolved administrations in Scotland, Wales and Northern Ireland	Accountable to the United Kingdom Parliament Parent department of the Rural Payments Agency	The National Audit Office audits the annual accounts of the Department which are then laid before the United Kingdom Parliament[1]
Rural Payments Agency (the Agency)	The Agency is responsible for making rural payments, carrying out rural inspections, and livestock tracing in England	The Agency is an executive agency of the Department	The National Audit Office audits the annual accounts of the Agency which are then laid before the United Kingdom Parliament
	The Agency administers the single payment scheme in England, funded by the European Commission from the EAGGF	The Agency is the accredited 'paying agency' for making payments under the single payment scheme in England	The National Audit Office in its role as United Kingdom Certifying Body (along with the Northern Ireland Audit Office, the Wales Audit Office, and Audit Scotland) audits the EAGGF funds and reports to the European Commission (via the United Kingdom Co-ordinating Body, see below)
Paying agencies in Scotland, Wales and Northern Ireland	The Scottish Executive Environment and Rural Affairs Department, Welsh Assembly Government, and Northern Ireland Department of Agriculture and Rural Development administer single payment schemes in the devolved administrations	Accountable to the Scottish Parliament, Welsh Assembly and Parliament	The grant payments in Scotland, Wales and Northern Ireland are audited by the home nations audit bodies[2] on behalf of the United Kingdom Certifying Body
United Kingdom Co-ordinating Body	Co-ordinates the findings of the United Kingdom Certifying Body[3] on behalf of the European Commission	Reports to the UK competent authority, which comprises ministers from the four UK Agriculture Departments	

Source: National Audit Office

NOTES

1 The Agency's annual accounts are consolidated within the Department's accounts. Any EAGGF payments which are likely to be disallowed by the European Commission are also recorded in the Department's accounts.

2 Audit Scotland, Wales Audit Office and Northern Ireland Audit Office.

3 The National Audit Office, Audit Scotland, the Wales Audit Office and the Northern Ireland Audit Office.

4 The claims received by the Agency cover a wide range of amounts. Whilst nearly 33 per cent of claims are for less than £500, nine per cent of claims are for over £40,000 **(see Figure 8)**.

8 The range of claims under the single payment scheme received by the Agency

Value of claim (£)	Number of claims	Percentage of total claims	Total number of claims below upper bound (cumulative)	The cumulative percentage	Number of claims paid in full by 30 June 2006	Percentage of claims paid in full by 30 June 2006
0 – 68 (= €100)	13,931	12.0	13,931	12.0	10,676	76.6
68 – 100	4,642	4.0	18,573	15.9	3,724	80.2
100 – 200	8,693	7.5	27,266	23.4	6,797	78.2
200 – 300	4,870	4.2	32,136	27.6	3,810	78.2
300 – 400	3,523	3.0	35,659	30.6	2,675	75.9
400 – 500	2,502	2.1	38,161	32.8	1,976	79.0
500 – 682 (=€1,000)	3,534	3.0	41,695	35.8	2,726	77.1
682 – 1,000	4,125	3.5	45,820	39.3	3,313	80.3
1,000 – 2,000	7,302	6.3	53,122	45.6	6,068	83.1
2,000 – 3,000	4,670	4.0	57,792	49.6	4,037	86.4
3,000 – 4,000	3,947	3.4	61,739	53.0	3,454	87.5
4,000 – 5,000	3,215	2.8	64,954	55.8	2,732	85.0
5,000 – 10,000	12,216	10.5	77,170	66.3	10,551	86.4
10,000 – 20,000	14,979	12.9	92,149	79.1	12,463	83.2
20,000 – 30,000	8,385	7.2	100,534	86.3	6,530	77.9
30,000 – 40,000	5,085	4.4	105,619	90.7	3,800	74.7
40,000 – 50,000	3,261	2.8	108,880	93.5	2,214	67.9
50,000 – 100,000	5,623	4.8	114,503	98.3	3,364	59.8
100,000 – 150,000	1,269	1.1	115,772	99.4	587	46.3
150,000 – 200,000	379	0.3	116,151	99.7	125	33.0
200,000 – 250,000	155	0.1	116,306	99.9	55	35.5
250,000 – 1,000,000	161	0.1	116,467	100.0	41	25.5
1,000,000 – 2,000,000	6	0.0	116,473	100.0	1	16.7
2,000,000 – 3,000,000	1	0.0	116,474	100.0	1	100.0
Totals	**116,474**	**100.0**	**116,474**	**100.0**	**91,720**	**78.7**

Source: Rural Payments Agency

Comparisons with Germany and the home nations

5 Our comparison with Germany and the home nations indicates that other countries also experienced some difficulties in administering the scheme, but ultimately paid out a higher proportion of amounts due than England **(see Figure 9)**.

9 A comparison of the implementation of the single payment scheme in England with Germany and the home nations

	England	Northern Ireland	Scotland	Wales	Germany[1]
Scheme Type	Dynamic Hybrid	Static Hybrid	Static Historic	Static Historic	Dynamic Hybrid
Total number of claimants	116,474	41,688	21,302	17,570	388,000
Number of new claimants	46,000	12,500	729	223	50,000
Total value of payments	£1,515 million	£221 million	£393 million	£214 million	£3,371 million[2] (€4,943 million)
Minimum payment	£0	£0	£0	£0	£68[2] (€100)
Minimum field size (hectare)	0.1Ha	0.1Ha	0.1Ha	0.1Ha	0.1Ha
Minimum holding size (hectare)	0.3Ha	0.3Ha	0.3Ha	0.3Ha	0.3Ha
Partial payments made	Yes	Yes	Yes	Yes	Yes
Date partial payments started	May 2006	December 2005	December 2005	December 2005	December 2005
Date full/balance payments started	February 2006	April 2006	March 2006	February 2006	April 2006
Proportion of payments (by value) made by the end of March 2006	15%	70%	86%	90%	78%
Proportion of payments (by value) made by the end of June 2006 EC deadline	94.9%	98.8%	99.3%	98.4%	100%
Did the organisation experience IT problems?	Yes	No	Yes – some problems experienced with implementation of new software.	No	Yes – systems had to be continually adjusted due to co-ordination problems between federal states.
Did the organisation experience mapping problems?	Yes	Yes	No	No	Yes – problems with inaccurate measurements and difficulties cross checking data.

NOTES

1 Information about the German scheme provided for us by our consultants RAND Europe.

2 Applying the exchange rate €1 = 0.68195 (rate at 30 September 2005). EU Regulation 1290/2005 requires Member States to convert aid expressed in euros into the national currency using the most recent exchange rate set by the European Central Bank prior to 1 October of the year for which the aid is granted.

APPENDIX TWO

Our methodology

1 The main techniques we used to evidence the report included:

Benchmarking

2 Germany was the only other 'older' Member State to introduce the single payment scheme on a similar timescale and on an equivalent basis to the dynamic hybrid model adopted in England. We employed RAND Europe to carry out a comparative analysis of the implementation of the scheme in Germany to inform our judgement of the relative success of implementing the scheme in England, to discover whether difficulties encountered in England are unique and to draw comparisons with any remedial steps adopted in Germany to tackle problems encountered there. The research was conducted during April – June 2006 using staff based in both the UK and Germany. Initial desk research, using an extensive literature, press and document review, was followed by seven interviews with government officials and stakeholders in Germany and the European Commission. A full copy of the report is available on the NAO website (www.nao.org.uk).

3 Each devolved administration within the UK adopted its own process for delivering the single payment scheme. We liaised with the auditing bodies and the relevant agriculture departments of each administration with the aim of identifying how the single payment scheme operated in each area.

Case file examination

4 We tested a statistically representative sample of claims being processed by the Agency to confirm the accuracy of payments actually made, to identify the issues encountered in processing specific claims, what the Agency did to address them and the causes of delay. We also used this sample to assess the level of payment errors across the scheme as a whole. The sample of 363 cases was chosen in April 2006. The sample included a range of different payment amounts:

Likely value of the final payment	Number of cases
Nil Payment	2
< £5,000	20
£5,000 – £24,999	92
£25,000 – £49,999	91
£50,000 – £99,999	90
£100,000 – £149,999	35
£150,000 – £199,999	16
£200,000 – £499,999	13
£500,000 – £999,999	2
> £1million	2
Total	**363**

5 Our testing identified 113 errors: 34 overpayments and 79 underpayments. One hundred and five of the 113 errors related to the flat rate element of each claim, which constitutes just ten per cent of the fund by value, while only eight cases errors related to the historic element. Consequently the impact of the errors we found has largely been limited to this ten per cent. As the dynamic hybrid progresses (see Appendix 1) the flat rate element will take up a larger and larger proportion of the fund until, in 2012, it comprises 100 per cent. It is important, therefore, that these errors are rectified for the 2006 single payment scheme.[43]

Forensic examination of key documents and reports

6 We undertook a detailed examination of relevant management reports, including minutes and supporting papers of the project boards which were overseeing the scheme. We supplemented this work with interviews with the responsible staff at the Agency and within the Department. We considered what issues the Agency encountered, the effectiveness of the action it took in response, and the robustness of the programme and risk management arrangements the Agency had put in place.

43 As the Certifying Body for the Agency, we used Monetary Unit Sampling as required by European Commission guidance. The year end for the European Commission fund is the 15 October so our work as Certifying Body will continue up to and beyond this date. These figures are, therefore, provisional until we complete our audit on behalf of the United Kingdom Co-ordinating Body.

Semi-structured interviews

7 We interviewed key officials on the CAP Reform Implementation Board and the Executive Review Group. The interviews, which in many cases were undertaken in conjunction with the Office of Government Commerce, used a set of standard questions on the role of board members and their views on the scrutiny of progress of the single payment scheme.

Survey and focus group of farmers

8 In order to gauge how the implementation of the single payment scheme has affected its clients we sought the views of claimants via a survey and several focus groups. We commissioned Ipsos MORI to conduct a telephone survey on our behalf to provide evidence of the impact of the payment timetable on claimants, how claims were handled and whether the Agency dealt with enquiries in an efficient and helpful manner. Ipsos MORI selected a representative sample of 1,000 farmers from a complete list of all Single Payment Scheme claimants, ensuring that quotas were filled for the following categories to ensure they reflected the national picture:

- amount of land registered for the single payment scheme;
- Government Office Region;
- Severely Disadvantaged Area;
- whether payment had been received.

9 The survey was conducted in June 2006 and was followed in July 2006 by in-depth telephone interviews with ten farmers who had expressed dissatisfaction with the performance of the Agency and agreed to be further interviewed during the original survey. The summary report from Ipsos MORI is available on the NAO website (www.nao.org.uk).

10 We ran two focus groups of farmers from East Anglia and the North West in May and June 2006. The participants represented a broad range of farming interests (tenants, landlords, contractors), farming types (combinable crops, dairy, livestock, poultry, horticulture) and payment areas (moorland, Severely Disadvantaged and non Severely Disadvantaged Areas). These groups provided us with detailed information about the experience of claiming under the single payment scheme.

Consultation with third parties

11 To provide an overview of the single payment scheme and how it has affected both claimants and other agricultural industries we have consulted with a range of expert third parties, including agricultural valuers, suppliers, bankers and individual farmers and land agents:

- Accenture
- Agricultural Engineers Association
- Agricultural Industries Confederation
- Agricultural Law Association
- British Bankers' Association
- British Institute of Agricultural Consultants
- Bruton Knowles
- C&D Property Services
- Central Association of Agricultural Valuers
- Corven Consulting
- Country Land and Business Association
- Farm Crisis Network
- Infoterra
- Institute of Agricultural Management
- Institute of Agricultural Secretaries and Administrators
- More Allen & Innocent LLP
- National Association of Agricultural Contractors
- National Farmers' Union
- Peter Greenwood & Co.
- Public and Commercial Services Union
- Robinson and Hall LLP
- Roger Parry & Partners LLP
- Royal Institute of Chartered Surveyors
- Rural Stress Information Network
- Sungard
- Tenant Farmers Association
- Windle Beech Winthrop
- Woodland Trust
- Xansa

APPENDIX THREE

A chronology of key events in the development of the single payment scheme and the processing of applications for 2005

1999

A review of European Union agricultural payment schemes in England concluded that a task based process could improve efficiency and should be adopted.

July 2000

EU Regulations adopted introducing a requirement for a digitised Rural Land Register from 1 January 2005.

1 April 2001

The "Change Programme" was initiated. Under the Government's Spending Review 2000, £130 million of ring fenced funding was provided to streamline and modernise the system of claims administered under the Common Agricultural Policy (CAP) and permit electronic delivery of services.

16 October 2001

The Rural Payments Agency (the Agency) was established. The Agency became the paying agency responsible for all CAP schemes in England. It took over from the payment functions of the Regional Service Group within the Department and the Intervention Board.

31 January 2003

Accenture appointed. Following the issue of an invitation to tender in the Official Journal of the European Communities (in October 2001), the Agency appointed Accenture to develop, maintain and support the IT systems necessary to support the Agency's change programme. At the time of the appointment, it was known that discussions on CAP reform were taking place, but no formal agreement had yet been reached, and that these discussions might impact on the development of systems and IT support. Once the contract was let, it had been envisaged that work to build the claims processing system would begin immediately; that the first phase would go live at the beginning of 2004; with the remaining phases being implemented during 2004.[44]

26 June 2003

Reforms to CAP agreed. Agriculture Ministers of the European Union agreed a package of CAP reforms.

29 September 2003

CAP reform regulations agreed. The CAP reform was given legal effect in regulations agreed on 29 September 2003.

6 October 2003

Additional funding sought for 2003-04 to meet the costs of implementing the CAP reforms. The Agency sought additional funding from the Department for 2003-04 in that year's mid year review.[45]

23 October 2003

Additional funding sought for 2004-05 to meet the additional costs of implementation of CAP reforms. The Agency raised a formal request with the Department as part of the budget process for 2004-05 to meet the additional costs of CAP reform. This addition was subsequently reflected in a revised business case, presented to the Department's senior management on 27 November 2003, which incorporated the cost of implementing the single payment scheme.[46]

12 February 2004

Official announcement of the single payment scheme. In February 2004, the Secretary of State for Environment, Food and Rural Affairs announced that the new single payment scheme would be implemented in England under a "dynamic hybrid" system that combined a declining proportion of payments based on farmers' historic receipts, with an increasing proportion of area based payments. The Department also chose to implement the payments at the earliest possible opportunity, which was during the 2005 CAP payment year commencing in January 2005.[47]

44 Efra Select Committee, Rural Payments Agency, 6th Report, Session 2002-03.
45 Supplementary Memorandum submitted by the Department to the Efra Select Committee and published on 20 April 2006.
46 Supplementary Memorandum submitted by the Department to the Efra Select Committee and published on 20 April 2006.
47 Efra Select Committee, Implementation of CAP Reform in the UK, 7th Report, Session 2003-04.

April 2004

Publication of the implementation regulations. Implementation regulations were published in April 2004 and system design continued on the basis of these.

May 2004

Renegotiated contract with Accenture signed. The contract with Accenture was renegotiated to reflect CAP reform and the revised contract was signed in May 2004 and expressed to cover arrangements with effect from April 2004.

6 May 2004

Publication of the Environment, Food and Rural Affairs Select Committee's 7th Report, Session 2003-04, *Implementation of CAP Reform in the UK*. The Committee noted "another area of concern is whether the Rural Payments Agency is able to cope with making payment to farmers under a complex and changing single payment scheme. The Agency has in the past experienced some difficulty in dealing with the complicated data management needed to deliver existing CAP schemes properly, and so in making payments on time. The Agency is already engaged in a 'Change Programme' which involves significant investment in information technology to 'streamline and modernise the system of administering claims under CAP'. In that context it is worth noting the difficulties faced by Government in delivering IT projects."

In evidence, Lord Whitty argued that in fact the new system was 'less complex' than what had gone before, which had '21 different regimes, all of which changed every year'. The Department said that: the new scheme was not 'beyond the ability of the RPA systems to deliver in time [though] it would be unwise for anybody to sit here and say today that we will have a fault-free system in place at the beginning of next year.'

14 July 2004

Publication of the Government's reply to the Efra Select Committee's 7th Report, Session 2003-04. The Government acknowledged in its reply to the Efra Select Committee's report that CAP reform had impacted on work to deliver the Agency's new IT systems, and that this work had increased the cost of the solution.

September 2004

The Rural Land Register (Release 1a) went live.[48]

October 2004

Decision taken to sub divide Release 3a into three sub releases.[49] Rather than having the full single payment scheme release R3a going live in April 2005, the Agency sub divided release R3a into three sub releases. The sub releases were then timed over a three month period to go live "just in time" for each critical business event (or step) in processing 2005 single payment scheme claims.

Updated EU Regulations published. Updated EU Regulations were published at the end of October 2004 and remaining policy decisions were announced shortly thereafter. Detailed consideration of these issues (by the Agency) confirmed that they constituted a major redesign of the core IT infrastructure and would impact substantially on the schedule for delivery.[50]

19 January 2005

The Agency announced that the first single payment scheme payments would be made in February 2006. In the light of the major redesign of the Agency's IT systems, the Agency announced on 19 January 2005 that first payments were likely to be made in February 2006 (i.e. three months through the seven month regulatory window which runs from 1 December 2005 to 30 June 2006). It was subsequently confirmed that the Agency aimed to pay 96 per cent of eligible claimants by the end of March 2006.[51]

20 January 2005

Additional funding sought for 2005 06 to meet the additional costs of implementation of CAP reforms. A further submission on the funding of the implementation of CAP reform was made as part of the process for setting budgets for 2005-06 with a further revised business case presented on 20 January 2005. Further changes to costs, as the impact of, for example, updated legal and policy requirements were confirmed, resulted in further requests for additional funding in 2005-06.[52]

48 Supplementary Memorandum submitted by Accenture to the Efra Select Committee and published on 20 April 2006.
49 CAP Reform Implementation Programme: Progress Report, October 2004 (ERG 038).
50 Paper ERG048 presented to the Executive Review Group Meeting 15 December 2005. The changes prompted by the policy-related issues were consolidated into 12 Change Requests. An impact assessment of these change requests indicated that, if accepted, the changes would lead to a forecast delay of two months (from December 2005 to February 2006) on first payments under the single payment scheme being made.
51 Efra Select Committee's 5th Report, Session 2005-06, *Rural Payments Agency: Interim Report*.
52 Supplementary Memorandum submitted by the Department to the Efra Select Committee and published on 20 April 2006.

February 2005

The Customer Register (Release 1b) went live.[53]

11 February 2005

Submission made to Ministers about the possibility of making advance payments under the 2005 single payment scheme.[54]

May 2005

The High Volume Data Capture functions (Release 3a0) went live.[55]

16 May 2005

Deadline for farmers to submit their single payment scheme claim forms for 2005.

July 2005

The core online functions for the single payment scheme (Release 3a1) went live.[56]

3 October 2005

The core online functions required to establish entitlements and make payments (Release 3a2) went live.[57]

Outsourcing of backlog map digitisation work to Infoterra. Infoterra started the digitisation of the backlog of work on 3 October 2005. At the time of the outsourcing, there is no evidence that there was an agreed contract that was properly tendered.[58]

October 2005

Efra Select Committee launch an inquiry. In the light of significant concerns about the Agency's ability to meet the deadline for making the new single payment scheme payments to farmers in England, the Efra Select Committee launched an inquiry in October 2005.

November 2005

It was confirmed that the costs of the Agency's IT contract with Accenture were escalating. It was reported to the Efra Select Committee that the budgeted revenue cost of the Agency's IT contract with Accenture had more than doubled from £18.1 million to £37.4 million. The main reasons for the increase were the growing complexity of the single payment scheme; the high volume of applications for funds; and the fact that Accenture had been engaged in developing systems for existing CAP schemes that were abolished as part of the 2003 CAP reform.[59]

1 December 2005

Start of the 2005 single payment scheme payment window. The Agency could commence payments to farmers under the single payment scheme.

31 December 2005

Regulatory deadline for establishing definitive entitlements. The 31 December represented the regulatory deadline for establishing definitive entitlements to CAP subsidy payments.[60]

24 January 2006

Publication of the Efra Select Committee's 5th Report, Session 2005-06, *'Rural Payments Agency: Interim Report'.*

14 February 2006

The Agency announced that it had established definitive entitlements and payments commenced on 20 February 2006. Some 60 per cent of the letters sent out, however, acknowledged that the recipient's definitive entitlement was provisional until all validation checks had been completed.[61]

53 Supplementary Memorandum submitted by Accenture to the Efra Select Committee and published on 20 April 2006
54 Paper CIPB 103 presented to meeting of CAPRI Board, 17 February 2005.
55 Supplementary Memorandum submitted by Accenture to the Efra Select Committee and published on 20 April 2006
56 Supplementary Memorandum submitted by Accenture to the Efra Select Committee and published on 20 April 2006
57 Supplementary Memorandum submitted by Accenture to the Efra Select Committee and published on 20 April 2006
58 Paper ERG 106 presented to Executive Review Group meeting on 1 December.
59 Efra Select Committee's 5th Report, Session 2005-06, *Rural Payments Agency: Interim Report*.
60 Article 38, paragraph 3 of EU Regulation 795/2004.
61 Executive Review Group Minutes, 13 February 2006.

16 March 2006

The Permanent Secretary of the Department, following consultation with the Secretary of State, removed the Chief Executive of the Agency from post and appointed a different, interim Acting Chief Executive.

April 2006

Additional funding sought for 2006-07 to meet the additional costs of implementation of CAP reforms. The Agency is seeking further funding for 2006-07.[62]

19 April 2006

Partial payments contingency plan invoked. The Secretary of State for Environment, Food and Rural Affairs, announced that work "on a system to make substantial partial payments to the remaining claimants should now be given priority and that the system should be deployed as soon as it is operationally possible to do so. The Agency will, in the meantime, continue to make full payments when claims have been fully validated, with historic claimants having priority."

30 June 2006

Payment window closes. The Agency had paid out £1,438 million out of the £1,515 million due by the time the EU deadline expired.

62 Source: Supplementary Memorandum submitted by the Department to the Efra Select Committee and published on 20 April 2006.

APPENDIX FOUR

Case examples of farmers' experiences of the single payment scheme

This appendix summarises the results of our survey of 1,000 farmers and the ten in-depth telephone interviews we commissioned Ipsos MORI to undertake.

Survey of farmers

a) Registering land

- 59 per cent of farmers considered it 'difficult' to finalise a correct set of maps for the Rural Land Register, compared to 30 per cent who thought it was 'easy'.
- 151 farmers (14 per cent of those responding to our survey) signed off a map that was not fully accurate. Of these, 34 per cent said that they had missed out at least half a hectare, and 14 per cent said that they had over claimed by at least half a hectare.

b) Application process

- 53 per cent of farmers were dissatisfied with the way their application for the single payment scheme was dealt with, compared to 36 per cent who were satisfied. The proportion who were dissatisfied was particularly high for those farmers with large farms (74 per cent) and amongst those who had not been paid at the time of the survey (76 per cent).

c) Communications

- 56 per cent of farmers thought they were uninformed about the progress of their claim by the Agency, compared to 43 per cent who thought they were informed.
- 55 per cent of farmers thought the Agency's staff had completely or partly resolved their queries. But 21 per cent of farmers thought the Agency staff had not helped at all, and 22 per cent thought they had made matters worse.

d) Payments

- The majority of farmers have not had to pay loan set-up fees, interest payments or consultant's fees for business advice as a result of late payment.
- 20 per cent of respondents stated that the late payment had increased stress and anxiety on themselves and their family.

e) What could the Agency do better?

- 54 per cent of farmers were not confident that the Agency will deal with their 2006 claim effectively, compared to 32 per cent who were confident.
- 29 per cent of farmers thought the process could be simpler.
- 22 per cent of farmers thought the staff should be more knowledgeable in dealing with their queries.

Case studies

We asked Ipsos MORI to conduct in-depth interviews with ten farmers who had expressed dissatisfaction with the Agency. The results are illustrative, too small to be quantified and may give a somewhat one-sided view of the Agency. We asked Ipsos MORI to focus on those farmers who were dissatisfied, however, in order to draw out the key concerns that the Agency will need to address.

CASE STUDY 1

Farm location: South East

Farm size and activity: Small, Livestock

Overall view: Very dissatisfied

Type of farmer: Tenant

Paid as at July 2006: Yes

"Each of these offices wanted us to do different things for them, they each had their own agenda, their own mission but neither of them was talking to each other. They could have made it easier by consolidating all of it together or finding the information about me from the other office that already had this information. There was a clear duplication of effort"

The farmer became aware of the single payment scheme through an article in Horse & Hound magazine.

Her main source of frustration was the amount of correspondence received from the Agency. She felt the Agency was spending more time on paperwork and correspondence than actually processing the claim. At least four edits were made to her land and in the end she verified the maps, despite an inaccuracy of 0.1 hectares, as it was easier than contacting the Agency again. Six months later she had to supply mapping information to the Agency again when she had assumed that their dealings with the maps were over.

Just before receiving her payment she received a number of letters from the Agency, once the same letter four times, apologising for the delay in her payment. She was also contacted by three different Agency offices requesting similar or identical information which gave her the impression there was a lack of joined up systems within the Agency. She describes the process of speaking to the Agency staff as "bizarre" as she felt they were uninterested and not very knowledgeable about the process.

CASE STUDY 2

Farm location: East Midlands

Farm size and activity: Small, Grazing

Overall view: Very dissatisfied

Type of farmer: Tenant

Paid as at July 2006: No

"While my dealings with staff have always been polite, I don't think they are very organised over there. The whole issue is very complex and they make it more complicated with their inefficient systems"

The farmer heard about the single payment scheme through an article in Horse & Hound magazine.

His first contact with the Agency was in October 2005 when they returned a photocopy of his application form saying there were missing details which they had amended and corrected. But the farmer says that the photocopy had the same information on it as the original application with no amendments or changes.

Six months after he filed his application he received a number of phone calls from three different Agency offices questioning him about his business which led him to the conclusion that there was a lack of organisation and clear procedures.

Four months after this, in March 2006, he received a phone call from the Agency saying he had not 'activated' his claim on his application form. He found it hard to believe that no one had spotted this sooner. He believes that the Agency were stalling for time and were using this as an excuse for delays at their end in processing his claim.

The farmer felt that there were unnecessary delays in the procedure, which he believes is an indication of a complex and bureaucratic procedure and an overall lack of organisation.

CASE STUDY 3

Farm location: East Midlands

Farm size and activity: Medium, Livestock

Overall view: Very dissatisfied

Type of farmer: Owner

Paid as at July 2006: No

"Talking to the staff it just seems that they know nothing about the procedures, they are all spouting different things and they do not know about rural conditions"

The farmer reported a number of hurdles to claiming his single payment, including lost forms and incorrect information given by the Agency.

After not hearing from the Agency for over four months after applying he enquired about progress and was told that they had no record of his application and the employee who had given him his receipt for the form had left the Agency. Three months after filling in the form again he received a letter from the Agency that was not dated or signed which led him to believe that there was a lack of attention to quality and detail.

After a number of letters and phone conversations with senior officials at the Nottingham office the farmer was sent digitised maps of his fields in March 2006. After correcting the boundary of his land a number of times he was asked by letter to change his field number to a new one that they had provided. A month later he received a phone call asking him why he had changed his field numbers. When he pointed out that it was at their request they denied sending him such a letter.

CASE STUDY 4

Farm location: West Midlands

Farm size and activity: Medium, Livestock

Overall view: Fairly dissatisfied

Type of farmer: Owner

Paid as at July 2006: Yes

The farmer found out about the single payment scheme through friends and neighbours.

The only problem she had was with the maps. The Agency initially sent correct maps in September 2005 but she then received more maps which had extra fields added on. This occurred three times and each time she had to correct them and send them back.

There was also confusion about the name of the land owner. The original owner had died four years ago but the Agency continued to send documents and letters in his name, along with the same documents in the interviewee's name. In her view, this implied that the Agency was doing extra work when it didn't have to.

Overall, she was not concerned about her payment as the money she received was merely a bonus:

"It was such a small insignificant amount and I wasn't expecting anything great out of it so we didn't really put effort into ringing them up and chasing the payment"

CASE STUDY 5

Farm location: South West

Farm size and activity: Small, Arable

Overall view: Fairly dissatisfied

Type of farmer: Owner

Paid as at July 2006: Yes

This farmer is retired and has kept a few fields so farming is no longer his main source of income. He has extensive experience in completing applications for subsidies so did not find the application form too difficult to complete, though he did find the vocabulary inappropriate. He considered himself lucky to have his maps already registered, and had no additional land to register, which he felt made his application much more straightforward.

He did not try to contact the Agency as his claim was so small and was not relying on it for his living.

His main concern was with the timing of payments:

"The date for the payment kept being put back. I seem to remember that February was mentioned at one time, then March, then May, and it dragged on and on and on. If we had known we would be paid in June, we could have made arrangements with our suppliers and our banks and kept our word. Even with a good excuse banks don't like to be let down"

CASE STUDY 6

Farm location: North East

Farm size and activity: Large, Livestock

Overall view: Very dissatisfied

Type of farmer: Owner

Paid as at July 2006: Yes

The main problem faced by this farmer related to the maps. Her weekly contacts with the Agency have been frustrating and so far unsuccessful. This has taken up a large amount of her time and has generated a lot of upset and stress. Although the maps are registered, her main concern is that she is not sure the maps are fully accurate, despite the number of versions that went back and forth between her and the Agency. After so many unsuccessful attempts she gets anxious each time she contacts the Agency.

She hired an agent to complete the application form and deal with the rest of the process because she found the form far too difficult to understand and could not absorb the amount of information she was sent.

The timing of the payment could have had bad financial impacts on her business but she was able to get help from other members of her family so she considered herself lucky.

Before applying she was already sceptical about how the system would work. Now she has lost all confidence in the system and her experience with the 2005 Single Payment Scheme could put her off applying for other Agency schemes.

She suffered a great deal by not being able to talk to the same person so has suggested there should be a single point of contact:

"We should be given a representative in our area. If we had one representative from RPA who we knew by name, we could deal with the individual, speak to that individual, knowing our history, knowing what we talk about, all other schemes, that would improve things greatly"

CASE STUDY 7

Farm location: North West

Farm size and activity: Large, Livestock

Overall view: Very dissatisfied

Type of farmer: Tenant

Paid as at July 2006: Partially

Before the application process started, the farmer was very hopeful, and confident that their payment would contribute to the extension of their farming activities, something they had been planning to do for the last few years. However, her expectations were not met and her experience with the single payment scheme has been "*extremely frustrating*". She emphasised a lot of confusion all the way through the process.

She found the information booklets and application form difficult to understand and used alternative sources of information such as the Tenant Farmers Association to clarify points. The language used was "*archaic*" and they could have made things easier if it was written in simpler English. The changes in terminology used were also confusing. However, the farmer was more positive about the 2006 application form which she felt was shorter and simpler.

One of the key problems she faced was that the payment was indicated in euros on the letter which she feels was a huge mistake. The actual sum they received was much lower than expected and she felt victim of variations in the exchange rate. She would have preferred to be told in pounds.

The Agency had sent the farmer a letter confirming the amount to be paid in early 2006 so she assumed she would be paid shortly after and had made plans accordingly. No payment was received so this generated more frustration, as did the lack of communications she got from the Agency:

"They have no understanding of what it is like to be a farmer. They can't have this attitude of 'why the hell are you ringing up?' as if we are just an annoyance. They need to treat us with the dignity that we deserve as their customers"

The priority now for her is the clarification of the process and telling the farmers the truth.

CASE STUDY 8

Farm location: South West

Farm size and activity: Large, Dairy

Overall view: Fairly dissatisfied

Type of farmer: Owner

Paid as at July 2006: Yes

This farmer applied to the single payment scheme for the first time in 2005 and found the process complex. He sought help from a local National Farmers' Union representative to complete the application form.

The final maps registered on the Rural Land Register were not accurate, despite four versions going back and forth.

His communications with the Agency were frustrating and he found the language used was not straight forward:

"The helpline wasn't easy to access. They didn't seem to understand a lot of our queries. What's the point of having a helpline then? The person at the other end didn't know any more than I did. That's why we had to go to a third party to find the information we needed"

Despite the difficulties experienced, the farmer did not express any negative views about the Agency. This might be because he had low expectations about how the process would work.

His suggestions for the future are for better staff training and to simplify the claims process.

CASE STUDY 9

Farm location: Yorkshire/Humber

Farm size and activity: Large, Arable

Overall view: Very dissatisfied

Type of farmer: Owner

Paid as at July 2006: Partially

This farmer runs a complex operation and has been in this farm for over 40 years. Sites are constantly coming into, or going out of, the enterprise. He states that the modern, progressive farmer has to be fluid:

"The Agency thinks everybody's farm has four fields, one of them is set aside. They have no idea about the complexity of a modern farming operation. They really have no idea – they are a waste of time"

He found the layout of the forms very difficult and not designed for large operations like his. The language was also difficult: *"designed by bureaucrats, not by farmers"*

His major frustration was that he could not make an electronic application and as a result it took him a very long time to complete.

He also had to borrow money to tide him over as he was used to receiving payment in December and this resulted in additional costs and interest charges.

CASE STUDY 10

Farm location: Yorkshire

Farm size and activity: Large, Arable

Overall view: Fairly dissatisfied

Type of farmer: Tenant

Paid as at July 2006: Yes

This farmer found the system complex and unnecessary. The materials provided were dense and difficult to work through. He was therefore very pleased when his agent offered to make the application for him. Although it was at a cost it would have taken him a very long time to have done it himself.

In his view, the process and the Agency may have got a bad reputation but many people in Yorkshire do not blame the Agency:

"Everyone in farming says it has been a complete farce. However, we don't blame the RPA. They just took on too much. It is the people who set it up who should take the blame"

He was reasonably satisfied with his experience but he puts this down to the fact that he did not have to deal with the detail as his agent offered to make the application for him.

His initial payment was received much later than he had been led to believe but his second payment followed a week later.

His main criticism was on the provision of information during the application process. When he called the helpline he was not confident about the answers.

APPENDIX FIVE

Compliance requirements for the single payment scheme

1 The single payment scheme, along with other Common Agricultural Policy schemes, is funded through the European Commission's European Agricultural Guidance and Guarantee Fund (EAGGF). Member states are responsible for making payments through their accredited national or regional paying agencies. Each paying agency in turn must provide sufficient guarantees to the European Commission on the admissibility of claims, within a rigorous compliance and control framework set out in European Commission regulations and guidance. Unless a paying agency complies fully with these requirements, the European Commission may impose a financial correction in accordance with its clearance of accounts procedure (further details can be found at http://ec.europa.eu/agriculture/publi/fact/clear/clear_en.pdf). In the event of a financial correction being imposed on the United Kingdom government, a proportion of the funding for the scheme has to be returned. From April 2006, expenditure on the single payment scheme is counted within the Department's Expenditure Limit rather than as Annually Managed Expenditure. As a consequence, the Treasury has confirmed that any financial corrections imposed from April 2006 onwards will have to be funded from the Department's expenditure programme.

2 Where the European Commission concludes that the Member State has carried out insufficient checks on claims or there are other general control weaknesses, they may seek to extrapolate the risks or, where this cannot be done, apply disallowance at a flat percentage rate of the expenditure considered to be at risk. The rates depend on the nature of the control weakness or errors identified:

- **Two per cent** where a Member State has 'completely failed' to operate one or more ancillary controls.
- **Five per cent** where all key controls are applied, but not in the number, frequency or depth required by the Regulations.
- **Ten per cent** when one or more key controls are not applied or applied so infrequently that they are completely ineffective in determining eligibility of the claim or preventing irregularities.
- **Twenty five per cent** or more where a Member State's application of a control system is completely absent or gravely deficient and there is evidence of widespread irregularity and negligence in countering irregular practices.
- **In exceptional circumstances, the entire expenditure could be disallowed and an agency's accredited status could be suspended or withdrawn.**

3 The amounts ultimately disallowed do not necessarily reflect the initial assessment and there is often a lengthy procedure before final decisions are made on disallowance. The process includes discussions with the European Commission; referral, if necessary, to an independent Conciliation Body; and, thereafter, to the European Court of Justice as the final arbiter.

APPENDIX SIX

A summary of the key risks to the project identified by the Agency and the reviews undertaken by the Office of Government Commerce

1 The Agency reported the risks to the project oversight boards each month **(see Figure 10)**. A green label denoted that the milestone was on track for delivery; amber denoted a potential issue with achieving the milestone; and red denoted the milestone was under serious threat of not being achieved and urgent action being required. The Agency categorised the risks into six main areas:

- **The business case.** This category covered the updated costs and benefits of the programme.
- **The scope of the project.** This category included the strategic direction of the programme and its wider environment, such as Ministerial involvement.
- **The schedule.** This category covered those risks likely to impact on the delivery timetable and overall performance against the timeline.
- **Resources.** This category included the risks associated with staffing and other key resources.
- **Stakeholders.** This category included those risks from the farming industry, such as communications with farmers.
- **Risks/issues.** This category included all other risks not covered elsewhere, such as the risks of industrial action.

2 The Office of Government Commerce undertake a series of different gateway reviews:

- **Gateway 0: Strategic assessment.** This review asks how the proposed programme meets the business need that lies behind it. It assesses the capability of those who are responsible for the programme and the support of users and stakeholders.
- **Gateway 1: Business justification.** This review asks whether the project is feasible, affordable, and likely to achieve value for money.
- **Gateway 2: Procurement strategy.** Asks whether the tendering strategy sufficiently reflects business requirements, awareness of the market, good practice in procurement and changes in business need.
- **Gateway 3: Investment decision.** Asks whether the tendering process has met its objectives and followed good practice, and whether the prospective contractor is likely to deliver on time, within budget and achieve value for money.
- **Gateway 4: Readiness for service.** Assesses whether project plans are up to date and adapted to working successfully with the contractor.
- **Gateway 5: Benefits evaluation.** Assesses whether expected benefits are being delivered and what is being done to pursue continued improvements.

3 As **Figure 11 on page 44** shows, the later reviews for the single payment scheme tended to be red, indicating that the senior responsible owner should take immediate action to address the issues raised.

10 The Executive Review Group's risk matrix recognised from the outset that implementing the Scheme was a high risk project

CAP implementation programme – monthly status report

	Business case	Scope	Schedule	Resources	Stakeholders	Risk/issues
06 Dec 04	R	R	R	A	A	R
18 Jan 05	G	A	A	A	A	R
17 Feb 05	G	A	A	A	A	R
18 Mar 05	G	R	A	A	A	R
26 Apr 05	G	R	R	A	A	R
13 May 05	G	A	R	A	A	R
23 Jun 05	A	A	R	A	G	R
15 Jul 05	A	A	A	A	G	R
18 Aug 05	R	A	R	R	R	R
22 Sep 05	R	R	R	A	A	R
18 Oct 05	R	R	R	R	A	R
17 Nov 05	R	R	R	R	A	R
15 Dec 05	R	R	R	R	A	R
24 Jan 06	R	A	A	R	G	R
10 Feb 06	R	A	A	R	R	R
09 Mar 06	R	A	G	R	R	R

Source: National Audit Office summary of data from the Agency

NOTE

The table summarises the risk assessment conducted by the Agency ahead of each Executive Review Group meeting.

11 A summary of the Gateway Reviews undertaken by the Office of Government Commerce of the Agency's change programme and, from May 2004, the implementation of the single payment scheme

Gateway	Date of Review	Status	Comments by the Office of Government Commerce
1	March 2001	Satisfactory	The report concluded that the proposed change programme has strong stakeholder support and a focused and energetic management team.
2	September 2001	Satisfactory	There are some very positive factors in the programme, including active senior management involvement and strong programme management and leadership skills. Some action is required on risk quantification.
3	January 2003	G	The review team found that the programme, although still containing considerable risks, is under good control and leadership, and stands a good chance of successful delivery. Further work on risk quantification and the management of financial contingency is still required.
0 (and 4 for Releases 1a and 1b)	May 2004	R	This is a complex Programme requiring fundamental change in the way the Agency operates. In respect of releases 1a and 1b, although testing has been delayed the process is under good control, the problems are understood and we believe that delivery will be successfully achieved in the coming weeks. In respect of releases 2 and 3, the combination of the timescale left, the number of serious risks identified and the fact that the final policy decisions will not be made until July, with the system well into design and build, result in a critical situation that will require urgent action.
4a (healthcheck)	January 2005	R	The review team found the programme is under strong leadership and has very visible Ministerial and Departmental support. However, there is no room for further change requests, which would lead the programme into serious difficulties and overload the operation of the Agency. The issue of interim payments was discussed; such a concept, if implemented, would require additional changes, and as such may endanger the achievement of payments within the legal window. It should therefore be eliminated as a possibility following the completion of a clear and concise impact assessment. The working relationship with Accenture is variable, though it has improved significantly in recent months.
4b (Releases 3a1 and 3a2)	June 2005	R	The programme is in considerable difficulties. The Agency have sought to keep to the February timescale, but the risks of failing have continued to increase. The team were concerned that there is not a finalised and secured contingency plan, nor clarity about when it could be invoked.
4c (Releases 3b0 and 3b1)	February 2006	A	Since the last Gateway Review, when the probability of making February payments was assessed at around 50 per cent, a huge effort has gone into achieving this target. The relationship with Accenture has improved and they are now performing to a stronger standard.
4d	May 2006	R	The computer system performed well technically but the business processes required to use it, in order to make full payments in the early part of the payment window, were not fit for purpose. The Agency is now in crisis management. The recommendation that all testing should be completed and business readiness confirmed prior to live implementation was rejected by the Agency, which claims that the system is now operating satisfactorily.

Source: National Audit Office summary of the OGC Gateway™ Reviews

NOTE

The project was initially a change management project to improve the efficiency of existing processes. As a result of the CAP Reforms, the programme was revised in late November 2003 to incorporate the implementation of the single payment scheme.

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