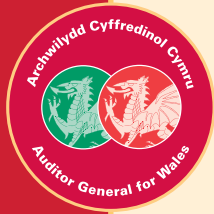




LATE PAYMENTS TO FARMERS IN WALES

Report by the National Audit Office Wales on behalf of the Auditor General for Wales



This report has been prepared for presentation to the National Assembly under the Government of Wales Act 1998.

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13 November 2003

The Auditor General for Wales is totally independent of the National Assembly. He certifies the accounts of the Assembly and its associated sponsored public bodies; and he has statutory authority to report to the Assembly on the economy, efficiency and effectiveness with which the Assembly and its sponsored public bodies have used their resources in discharging their functions.

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Report by Auditor General for Wales, presented to the National Assembly on 20 November 2003

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Executive Summary

- 1 Each year, the National Assembly for Wales (the Assembly) makes grant and subsidy payments totalling about £210 million to around 16,000 farmers in Wales. The majority of these payments, by value, are made under a number of European Union Common Agricultural Policy (CAP) schemes. These, along with Tir Mynydd, a support measure under the Assembly's Rural Development Plan, account for about 95 per cent of payments by value. The remaining payments are those made in accordance with domestic agriculture support measures, such as the Assembly's own agri-environmental schemes. Without these direct grants and subsidies, many livestock farm businesses in Wales would make a loss.
- 2 Many payments to farmers from 16 October 2002 (the start of the European Commission accounting year for CAP payments) were delayed because the new information technology system designed to authorise payments was not operational in time. This project was adversely affected by the outbreak of foot and mouth disease and the need to take account of complex new European regulations. This report considers the extent of the delays in payments to farmers, the reasons for these delays and the Assembly's management of the situation. It was not possible to undertake a detailed analysis of the position with payments under domestic support measures because the data was not readily available in aggregate form. The report focuses mainly on the CAP schemes and Tir Mynydd, which account for the vast majority of the Assembly expenditure on payments to farmers.

Delays in payments

- 3 For each CAP scheme, the Commission designates a "payment window", within which each Member State - the United Kingdom in the case of Wales - should make the majority (96.14 per cent) of payments by value. In recent years, the Assembly has been relatively successful in making payments promptly, usually meeting its targets for making nearly all payments within the payment windows. For the payment year starting in October 2002, however, Assembly CAP payments to farmers in Wales were significantly delayed: the Assembly met its target for the value of payments made within the designated window for only one scheme, albeit the most significant by value. In aggregate, across the CAP schemes administered by the Assembly, £119.4 million, or 75 per cent, was paid within the payment windows; this means that £49.4 million, 25 per cent, was not paid within the windows. In addition, a substantial number of payments made within the windows were received by farmers significantly later than in recent years.
- 4 Notwithstanding past practice, Assembly officials told us that the Assembly had no obligation to pay farmers their CAP subsidies before the end of the relevant payment window and that this is made clear to farmers in the guidance documentation sent out to them. However, representatives of the farming unions stressed to us that farmers were generally not aware of European Commission regulations concerning payment windows; farmers had come to expect to receive payments at around the same time as they had done in previous years and that was the basis on which they managed their businesses.
- 5 When Assembly officials realised the difficulties they were having in making prompt payments, they decided to focus their efforts on addressing the severe problems with CAP and Tir Mynydd payments as these accounted for the great majority of payments by value. This led, however, to delays in making payments under its domestic support measures. For most of these schemes, payments are due to farmers on the anniversary of their contractual agreement with the Assembly - the Assembly then aims to make the payment within two months of the receipt of a valid claim. Payments for domestic support measures can therefore fall due at any point throughout the year. No payments at all were made in the four month period to 6 February 2003, during which time 23 per cent of claims received annually fell due. For the 2002-03 CAP payment year only, where the Assembly was unable to make payments within two months of the date of agreement through no fault of the farmer, Ministers decided to pay interest.

Reasons for the delays

6 The Assembly's new IT system for administering CAP payments, known as CAPIT, was a key element of its wider "JIGSAW" programme (the Joint Initiative for Government Services across Wales), designed to improve the service it provided to farmers. Assembly officials told us that they believed that JIGSAW had had many achievements. The scope of this study, however, was limited to the issue of late payments to farmers. The CAPIT project was hampered by two significant factors: the outbreak of foot and mouth disease and the need to implement new, complex European regulations. Foot and mouth disease came at a time when much of the initial work on CAPIT was under way. Assembly officials told us that the need to divert key staff to assist with foot and mouth resulted in a delay of about six months to the CAPIT project, with the consequence that the development, testing, software release and training then coincided with the opening of the payment windows in 2002. Foot and mouth was also the reason that the Geographical Information System project, another important part of the JIGSAW programme which linked with the CAPIT system, was delayed by a full 12 months.

7 The European Commission Regulation (EC) No 2419/2001, which came into force in January 2002, required aggregated penalties to be applied, where relevant, to all bovine scheme applications for the payment year beginning in October 2002. The design, development and testing of software to facilitate this was a significant added burden on stretched resources. This was further compounded by the continued need to cross-check cattle records in farmers' applications against the national database which allows the registration and movement of cattle to be monitored. Assembly staff found many anomalies in applications as a result of this cross-checking, all of which had to be resolved before payments could be made. In recognition of the difficulties that many member states experienced implementing aggregated penalties, the European Commission extended the relevant payment window deadline by a month.

8 The problems experienced by the Assembly with the implementation of CAPIT were wide-ranging and included:

- difficulties in the way that data from farmers' applications was captured by the system, including new scanning technology;
- under-estimates of the time needed to test the elements of the new system;
- the added complication of a new customer database; and
- staff unfamiliarity with the new system, compounded by problems with delivering the training programme.

An additional complication was the parallel introduction within the Assembly of a new financial system (CODA) which would have to link to the CAPIT system to enable payments to be made automatically.

9 There were other factors contributing to delays in making payments. These included:

- the loss of key Assembly personnel involved in administering payments;
- disruptions at the Llandrindod Wells divisional office due to the discovery of asbestos there;
- Assembly CAP Management division office moves between different locations in Cardiff.



With the exception of the last of these, internal office moves, all these factors were outside the direct control of the Assembly.

- 10 The Assembly sought to manage the risks inherent in introducing CAPIT through a comprehensive risk register, which identified around 1,000 risks and issues, monitored by a Project Board. In their view, Assembly officials did all they reasonably could to manage the many and varied risks that are inevitably associated with a project of this nature, making the point that managing risk is not the same as eliminating risk. If ongoing problems implementing CAPIT put the Assembly's ability to make payments at risk, the contingency plan was to extend the use of the predecessor to CAPIT, known as the Legacy system. But the significant work needed to modify the Legacy system was not started until August 2002, too late to guarantee timely payments on all schemes.

Assembly's management of the delays

- 11 In the summer of 2002, Assembly officials realised that they were unlikely to be in a position to be able to authorise payments at the opening of the payment windows in October: CAPIT was not yet sufficiently functional and the Legacy system was not a straightforward backup as it could not accommodate the new legislative requirements for the bovine schemes nor communicate with the new finance system, CODA. In order to create the facility to make payments, the Assembly decided to develop a hybrid process, comprising elements of CAPIT, the Legacy system and CODA. The hybrid process was inevitably very technically complex, and took some time to develop and test.
- 12 As well as developing the hybrid process, Assembly officials did what they reasonably could to mitigate the effect that the delays in payments would have on farmers. For example, they:
- decoupled the main Sheep Annual Premium Scheme payments from the Less Favoured Area supplement as the former could be paid much more quickly than the latter;
 - manually processed some 300 "hardship" payments (this was not additional money) to farmers whose applications had been validated and who provided evidence of financial hardship as a result of the delays. Assembly officials and the farming unions agreed that this service should not be widely advertised as it would divert resources from processing claims automatically;
 - in January 2003 contacted the European Commission, through the United Kingdom co-ordinating body, to seek authority to make advance payments before data on bovine claims submitted by farmers had been fully validated (that is, checked for accuracy and full compliance). This request was denied on the grounds that such a move would be in breach of regulations and Assembly officials' expectation at that time that advance payments would be made within the payment window;
 - established in January 2003 a dedicated local number call centre to deal with all farmers' queries about their payments and other matters. The aim of this initiative, which ran for seven weeks and cost some £11,000 (excluding the cost of Assembly staff time), was to free up time for dedicated payments staff located in divisional offices to process and authorise payments; and

- agreed to make interest payments for those claims paid beyond the payment window (for CAP schemes) and after two months of the agreed payment date (for domestic support measures), in both cases where payments had been delayed through no fault of the farmer. As at 30 October 2003, a total of £37,000 had been paid in interest.

Reactions to the hardship payments, call centre and interest payments from the farming community have been mixed.

- 13 In the difficult circumstances in which the Assembly found itself, effective communications with farmers became very important. Assembly officials sought to be as open as possible in their communications, providing their best estimate of the situation at any given time. However, the messages sent out by Assembly officials to the farming unions proved to be overly optimistic, anticipating a far quicker resolution of the problems than was possible. When the Assembly could not meet its estimated payment dates, this had the effect of further damaging relations between the Assembly and its clients.

- 14 The contract for the development of CAPIT was based on partnership working between the Assembly and the contractor, Cap Gemini Ernst & Young, with a risk and reward payment mechanism reflecting this partnership approach. Both Assembly officials and Cap Gemini Ernst & Young believe that the partnership arrangements have worked well, enabling them to tackle the problems that arose more successfully than would otherwise have been the case. The contractor also provided some resources free of charge to enable the project to continue.

- 15 Assembly officials told us that they had learned a number of valuable lessons through their experiences. With the first of the new payment windows opening on 16 October 2003, Assembly officials assured us that the CAPIT system was fully functioning. For strategic reasons and in view of the changes in CAP arrangements following the mid-term review of CAP in the summer of 2003, Assembly officials decided to continue operating the hybrid process for some schemes. On the first two days that the new payment window opened, the Assembly made payments amounting to £74 million, about 50 per cent of the total estimated expenditure for all CAP schemes for the 2003-04 payment year. Timely payments were also being made under the Assembly's domestic support measures.



Concluding comments

- 16 The CAPIT project was a key component of a major change programme, JIGSAW, intended to improve the service that the Assembly provides to Welsh farmers. Within the highly complex regulatory environment within which CAPIT was designed to operate, development work on the project was significantly affected by the outbreak of foot and mouth disease in the first half of 2001, with further complications arising from the advent of additional European legislation which has caused considerable problems for other United Kingdom Paying Agencies whether they are also implementing new control systems or not. Against this background, the experience of other well-known computer projects in the public sector, shows that it was clearly a risk that CAPIT, an ambitious and technically advanced system, would be subject to delays in implementation. Despite the extensive project management arrangements put in place by Assembly officials, CAPIT was delayed with the direct consequence that the Assembly did not make all grant and subsidy payments on time.
- 17 We acknowledge that the Assembly has no contractual obligation to pay farmers their subsidies before the end of the relevant payment window, and that guidance provided to farmers makes this clear. But in recent years farmers have come to expect and rely upon payments being made at around the same time - well before the end of the payment window - and this is an expectation that they share with their counterparts in England. Not surprisingly, this is the basis upon which they have planned their businesses. The Assembly, in this instance, did not provide the overall standard of service that farmers have a right to expect.
18. Assembly officials have assured us that they have learned the lessons from its experience to date of implementing the CAPIT system. It is encouraging that the Assembly has made a very successful start in terms of the CAP payment round beginning in the autumn of 2003. This should help to improve the relationship between the Assembly and its clients in the farming community.



1 Introduction



The Assembly makes a number of payments to farmers, under various schemes

1.1 Each year, the National Assembly for Wales (the Assembly) makes some 160,000 grant and subsidy payments totalling about £210 million to around 16,000 farmers in Wales, most of whose businesses are dependent on these payments. These payments comprise: European Union Common Agricultural Policy (CAP) subsidy payments (see box); Tir Mynydd, a support measure under the Assembly's Rural Development Plan; and other agricultural support measures, such as the Assembly's own agri-environmental schemes. The division responsible for administering these payments, the CAP Management division, is the largest in the Assembly, with a total of some 540 staff, based in Cardiff and Aberystwyth, with divisional offices in Llandrindod Wells, Caernarfon and Carmarthen. The primary objective of the division is to make accurate, timely payments to farmers.

The Assembly as Paying Agency

The Assembly took on the role of being an accredited "Paying Agency" for the purposes of making CAP payments from the Welsh Office. As a Paying Agency, the Assembly has a legal obligation to the European Commission as part of the United Kingdom member state to administer CAP subsidy payments to farmers in Wales. The Assembly is responsible for administering CAP payments within a specified timeframe, ensuring that they meet European Community regulations and certifying that compliance has been rigorously assessed before a payment is made.

1.2 The CAP and other schemes - set out in **Figure 1** - are designed to assist and support the farming industry by either compensating farmers for loss of income through a reduction in prices or for encouraging

farmers to protect and enhance the environment. In total, the Assembly receives around 90,000 claims each year (many farmers are able to make claims against more than one scheme). CAP schemes and Tir Mynydd together account for the majority, 95 per cent by value, of the payments.

In 2002-03, payments to farmers by the Assembly were significantly delayed

1.3 For CAP schemes, the accounting year begins in mid-October each year. European Commission regulations designate a "payment window" within which most payments should be made. (For the Beef Special Premium and Suckler Cow Premium schemes, payments are made in two tranches: an advance of normally around 60 per cent of the total due, and a balance payment later. Both must be paid within the window.) In 2002, the payment windows for most schemes administered by the Assembly opened on 16 October and for all schemes closed during the period January to July 2003 (see Figure 3).

1.4 For the accounting year beginning in October 2002, many subsidy and grant payments to farmers were delayed. In contrast to recent years, no CAP scheme payments were made until 18 November 2002 and a quarter of payments by value were not made within the relevant payment window. Payments under the Assembly's domestic support measures are due to farmers on the date of the original contractual agreement, after which the Assembly has two months to make the payment (assuming a valid claim has been received). No domestic support measure payments were made between mid-October 2002 and 6 February 2003, irrespective of any contractual obligation to pay within this time.

1 Schemes under which the Assembly makes payments to farmers

CAP Subsidy Schemes ¹		Annual Assembly expenditure £m
Sheep Annual Premium Scheme	Provides for the payment of an annual premium to sheepmeat producers. Payment is based on the number of female sheep that, by the last day of a specified 100-day retention period, have either given birth to a lamb; or attained the age of 12 months.	65.8
Sheep Annual Premium Scheme Less Favoured Area Supplement (LFA)	As above, for farmers in areas designated by the European Union in recognition of the natural handicaps of soil, relief and climate faced by the agricultural industry in those areas.	18.7
Arable Area Payments Scheme	Provides area payments on eligible land to growers of cereals, linseed, oilseeds, protein crops, flax, hemp and set-aside land.	10.9
Beef Special Premium Scheme	Gives direct support to beef producers. Only male cattle are eligible for premium. Beef producers must undertake to retain claimed animals on his holding for two months from the day after the Assembly receives the application, unless they specify a later date on the claim form.	23.2
Suckler Cow Premium Scheme	To help support the incomes of specialist beef producers. Premium is paid on suckler cows and heifers (over eight months old), forming part of a regular breeding herd used for rearing calves for meat.	28.2
Extensification Payment Scheme	Producers receiving Beef Special Premium and/or Suckler Cow Premium can apply to receive extensification payment if their stocking density complies with certain levels.	14.5

Rural Development Plan And Other Schemes

Tir Mynydd 2003	To encourage farming in the less favoured area of Wales	37.1
Farm Woodland Scheme	To encourage the creation of new woodland on farms. Payments under this scheme are made to compensate for agricultural income foregone	0.05
Farm Woodland Premium Scheme	Replaced the scheme above, with the same objectives	0.4
Environmentally Sensitive Area	To protect areas of Wales of high landscape, wildlife, or historical value	6.2
Habitat Scheme	To protect and enhance the wildlife value of specifically important habitats in Wales: broad-leaved woodland; species rich grassland; water fringe and coastal belt	0.3
Organic Aid	To support conversion to organic methods of farm production. Payments take into account additional costs for conversion to organic production	0.01
Organic Farming	To support conversion to organic methods of farm production. Payments take into account additional costs of conversion to organic production	2.5
Moorland Scheme	To protect and improve moorland areas, primarily through stocking rate reductions	0.04
Farm Improvement Grant	A capital grant, for which applications can be made for waste management, livestock and crop husbandry, or sustainable resource management.	1.6
Farm Enterprise Grant	Grant for the development of on-farm diversification, such as alternative crops and livestock, and processing no-food farm products.	0.1

NOTE

- 1 The Rural Payments Agency, part of the Department for the Environment, Food and Rural Affairs, administers the Slaughter Premium Scheme on behalf of the Assembly

Source: National Assembly for Wales

- 1.5 During 2002, the Assembly introduced a new computer system for administering payments, known as CAPIT, a system developed in partnership with contractors, Cap Gemini Ernst & Young. The implementation of this system was delayed owing to a number of inter-related factors, particularly the outbreak of foot and mouth disease in 2001 and the changing regulatory framework. CAPIT itself is part of a wider business change programme within the Assembly's agriculture division, the Joint Initiative for Government Services across Wales (JIGSAW). Starting in 1999, JIGSAW, originally a three-year programme but extended by a year following the outbreak of foot and mouth disease, is designed to provide a more customer-focused service by the Assembly to its key agricultural clients, farmers and producers. More details on JIGSAW are in the box. Assembly officials told us that they believed that JIGSAW had had many achievements. The scope of this study, however, was limited to the issue of late payments to farmers.

JIGSAW

JIGSAW is a £16 million programme, 75 per cent of which is funded through the Treasury's *Invest to Save* budget. The programme was developed in response to the fact that the Welsh Office recognised that it was not offering a sufficiently good quality of service to farmers and that its IT systems were outdated and unlikely to be capable of adaptation to meet changing demand. JIGSAW's two main aims are therefore to: improve the effectiveness and efficiency of the administration of the Common Agricultural Policy for farmers and producers by improving the quality and delivery of services to customers and by also reducing the cost to the Assembly of administering CAP; and work in partnership with farming organisations and other public sector organisations to improve the co-ordination of and access to services to farmers, farming businesses, farming families and other rural citizens connected to agriculture.

Within JIGSAW, the implementation of CAPIT - described in more detail in Part 3 of this report - accounts for £9 million of the total £16 million budget. A further £3 million is allocated to the Geographical Information System project. This system is designed to meet the European Commission requirement that field parcels be located and measured using digital data and aerial photography where applicable, and that the resulting data feed into the control system.

- 1.6 As the extent of the payment delay problem emerged, the Assembly's Agriculture and Rural Development Committee¹ met regularly to discuss progress with the then Minister for Agriculture and Rural Affairs and, in February 2003, with representatives of the farmers' unions. In March 2003 the Committee published its own inquiry into the delays and in June the new Minister responded to the Committee's report. In his response the Minister expressed great regret at the adverse effect that delays in payments had had on farmers. The full text of his response is at Appendix 2.

Scope of the National Audit Office Wales investigation

- 1.7 On behalf of the Auditor General for Wales, the National Audit Office Wales conducted an independent investigation into the delays. This report considers:

- the extent of delays and the impact this has had on farmers (Part 2);
- the reasons for the delays, both internal and external factors (Part 3); and
- the Assembly's management of the problem and associated costs of the delays (Part 4).

This report focuses mainly on the CAP schemes, which account for the majority of the Assembly expenditure on payments to farmers. It was not possible to undertake a detailed analysis of the position with payments under domestic support measures because the data was not readily available in aggregate form. Appendix 1 sets out the methodology used to conduct the study.

¹ Since May 2003, agricultural issues have been the responsibility of the Environment, Planning and Countryside Committee.

Extent of the delays 2

- 2.1 This part of the report sets out the extent of the delays for each scheme, comparing performance in 2002 with that of previous years. It also considers the effect that delayed subsidy payments can have on farmers.

Payments under CAP schemes have been significantly delayed, particularly when compared with recent years

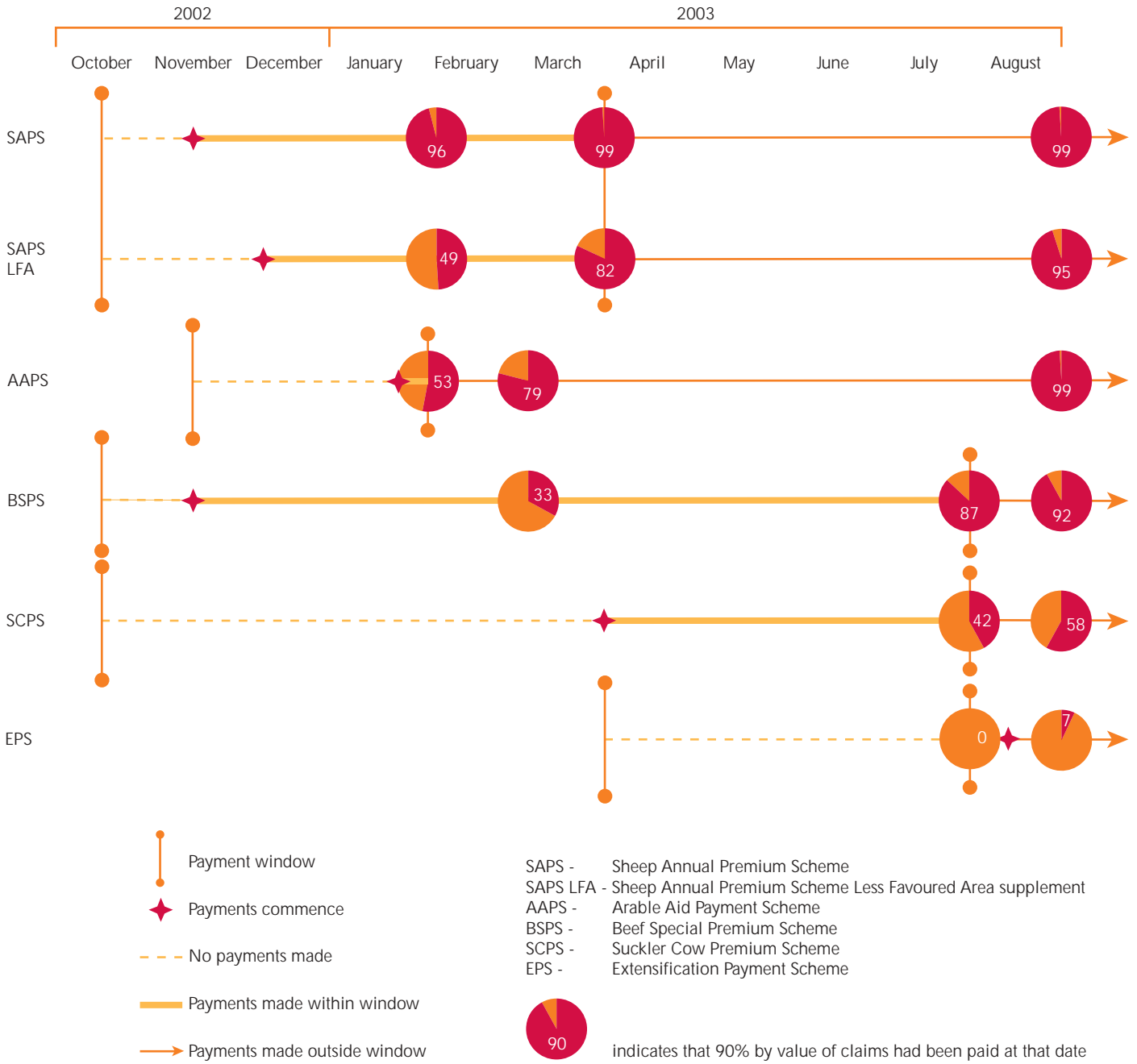
- 2.2 **Figure 2** sets out how quickly the Assembly made payments to farmers under each CAP scheme for the payment year beginning in October 2002. It shows that payments for most schemes did not start until some time after the opening of the payment window, and that for some schemes continued after the window had closed.
- 2.3 Under European Commission regulations, the United Kingdom, as a member state, is required to make 96.14 per cent by value of all payments to farmers within the payment window for each scheme if it is to receive 100 per cent reimbursement. In 2002-03, the Assembly achieved this level only for the Sheep Annual Premium Scheme, albeit the largest scheme by value, accounting for around 33 per cent of all annual payments. As shown in **Figure 3**, only 53 per cent of payments under the Arable Area Payment Scheme by value had been paid at the end of the window, and 42 per cent of the Suckler Cow Premium Scheme. In aggregate, across the CAP schemes administered by the Assembly and the Tir Mynydd programme, £49.4 million, or 25 per cent, was not paid within the payment windows.
- 2.4 If a member state fails to achieve the requirement to make most payments within the window, it may suffer disallowance, where the Commission will reduce its funding. Any disallowance suffered by the United Kingdom - of which Wales is a relatively small constituent - is borne by central government and does not affect the Welsh block grant. There is therefore no risk

to future Assembly funding as a direct consequence of its failure to make all payments within the payment windows for 2002-03. Conversely, if the Assembly had made payments without having complied with relevant regulations, it might have seriously jeopardised its Paying Agency status.

- 2.5 Assembly officials told us that the Welsh Office had not had a good record of paying farmers promptly. However, in recent years, the Assembly has been relatively successful at making prompt subsidy payments to Welsh farmers. **Figure 4** compares the Assembly's performance in making payments relative to the opening of the payment window in 2002-03 with that in previous years. For example, for the payment year beginning in October 2002, the Assembly only began making arable area payments on 24 January 2003 and had paid 65 per cent by the end of January; 15 per cent remained unpaid in April 2003. With the Arable Area Payments Scheme, in previous years farmers would have received their payments by the end of January when the payment window closes.
- 2.6 The Sheep Annual Premium Scheme has been excluded from **Figure 4** as arrangements for this scheme changed in 2002. In previous years payments had been made in three tranches: the first and second advances were paid in July and October, and the balance - usually about 40 per cent of the total - made around March/April in the new year when all necessary price information was available on which the premium was determined. For the 2002-03 payment year, the three tranches were replaced by a single payment. As **Figure 2** shows, no payments at all were made in 2002 until November. For the main scheme, 99 per cent of payments were made within the payment window, with the equivalent figure at 82 per cent for the supplement for farmers in less favoured areas.



2 Comparison of the timing of selected CAP payments at 31 December 2002 with previous years



NOTE

Payments for the Extensification Payment Scheme cannot be made until Suckler Cow, Slaughter and Beef Special Premium payments have been paid in full.

Source: National Audit Office Wales analysis of Assembly data

3 Assembly performance against payment windows

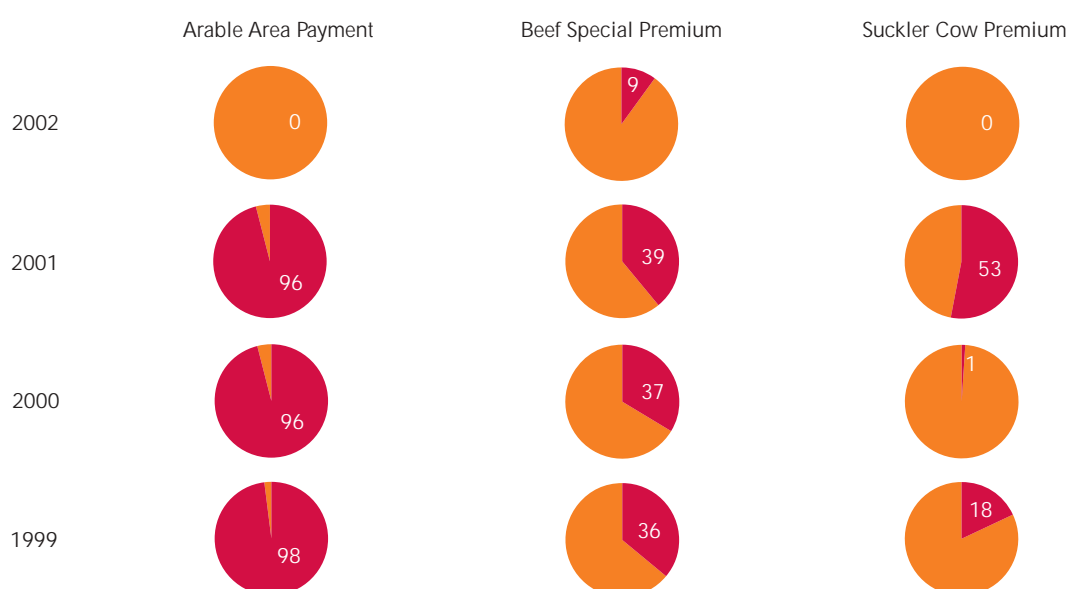
Scheme	Payment window	Value of scheme £m	Paid within window £m	Proportion paid within window
Sheep Annual Premium Scheme	16 October 2002 - 31 March 2003	65.8	65.3	99%
Sheep Annual Premium Scheme Less Favoured Area supplement	16 October 2002 - 31 March 2003	18.7	15.3	82%
Arable Area Payments Scheme	16 November 2002 - 31 January 2003	10.9	5.8	53%
Beef Special Premium Scheme	16 October 2002 - 31 July 2003 ¹	23.2	20.9	87%
Suckler Cow Premium Scheme	16 October 2002 - 31 July 2003 ¹	28.2	12.1	42%
Extensification Payment Scheme	1 April - 31 July 2003 ¹	14.5	0	0%
Tir Mynydd (Element 1 and 2)	No designated window but generally paid March to May	37.1	29.6	80%
Total		198.4	149.0	75%

NOTE

- 1 The payment window deadlines for the bovine schemes were originally 30 June, but were extended for all member states due to problems regarding cross bovine penalties (see Part 3).

Source: National Assembly for Wales

4 Comparison of the timeliness of CAP payments at 31 December in 2002-03 with previous years



NOTES

- The Arable Area payment window changed in 2000 from October - December to November - January.
- The Sheep Annual Premium and Extensification Payment Schemes have been excluded from Figure 4: the former for the reasons set out in paragraph 2.6; and the latter as payments are dependent on the full receipt of payments under other bovine schemes and an end of December date is therefore not meaningful.

Source: National Assembly for Wales

Payments under the Assembly's domestic support measures have also been delayed

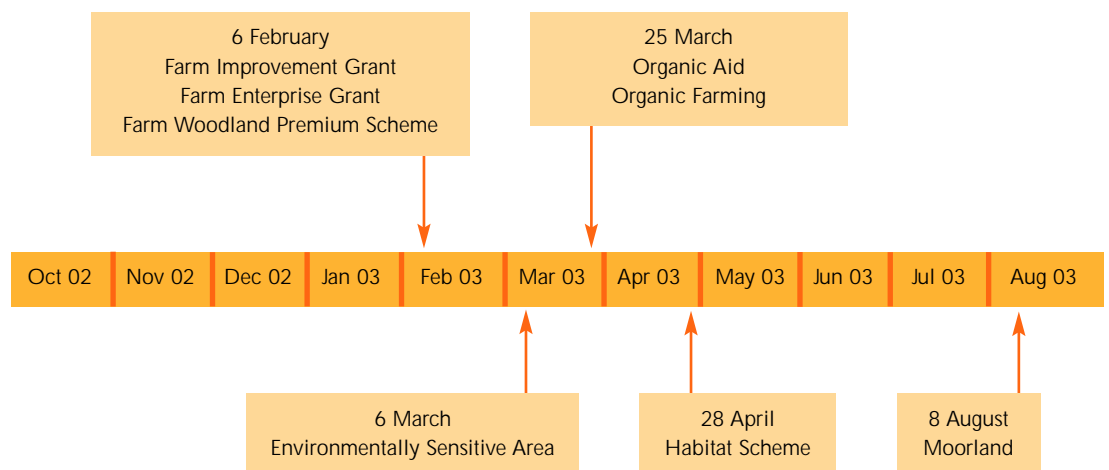
- 2.7 Domestic support measures are administered slightly differently from CAP schemes as, generally, the Assembly and the farmer have individual arrangements. For most schemes, unlike CAP schemes, payments can be made at any time throughout the year. Farmers are generally due to receive their payments, provided they have fulfilled their contractual obligations, on the anniversary of the agreement and within two months of submitting a valid claim. For the 2002-03 year only, where the Assembly was unable to make payments within two months of the date of agreement through no fault of the farmer, Ministers decided to pay interest.
- 2.8 In order to focus available resources on addressing the problems with CAP payments, from the opening of the CAP payment windows on 16 October 2002 the Assembly did not make any agri-environmental payments for almost four months - until 6 February 2003 when payments finally resumed for the Farm Improvement Grant, Farm Enterprise Grant and Farm Woodland Premium schemes. Payments for other schemes resumed later on in the year (see Figure 5). In total, 965 domestic support measure claims, 23 per cent of all claims received in the year, were due and not paid during this October to February period.

2.9 Figure 6 shows that, on the data available from Carmarthen, one of the three divisional offices, the average delay in making payments on domestic support measures since October 2002 ranged from 1 day for the Organic Farming scheme to 54 days for the Farm Woodland Premium scheme (taking into account the two months the Assembly has to make payments after the anniversary of the date of agreement). On this limited data, 47 per cent of farmers received their payments later than two months after it was due.

Farmers have come to rely on regular payments in order to run their businesses

2.10 Farmers in Wales rely heavily on subsidy and grant payments as they are, on average, higher than net income. For example, in 2001, livestock farmers received an average of £16,400 in direct subsidies and grants. This compares with average net livestock farm income - after taking account of other income and costs - of £9,100. The relationship between net income and subsidies received differs depending on the type of farm business and location - see Figure 7. Without these grants and subsidies, all types of livestock farm business except dairy farms would, on average, have made a loss.

5 Date when first payments were made after 16 October 2002 for domestic support measures



Source: National Assembly for Wales

6 Time taken to make payments under domestic support measures at Carmarthen divisional office, October 2002 to October 2003

Scheme	Days from the anniversary of the agreement			Applicants		Delays
	Minimum no. days taken to pay	Maximum no. days taken to pay	Average	Total Number of applicants	No. of applicants paid after 60 days of due date	% of applicants receiving payments after 60 days
Farm Woodland Premium Scheme	21	133	114	59	56	95%
Environmentally Sensitive Areas	1	358	60	566	245	43%
Habitat	4	408	81	202	101	50%
Organic Farming Scheme	1	361	61	278	121	44%
Total				1,105	523	47%

Source: National Assembly for Wales

7 Livestock farming comparison of net income against subsidies received, 2001

Type of business	Amount received in direct subsidies (£000)	Net income (£000)
All	16.4	9.1
All dairy farms	3.6	29.6
Less Favoured Area: cattle and sheep farms	22.7	1.7
Severely Disadvantaged Area: mixed cattle and sheep farms	28.1	3.9
Disadvantaged Area: cattle and sheep farms	11.4	-0.9
Lowland: cattle and sheep farms	13.1	2.2

NOTE

Data is not collected on non-livestock businesses, such as cereals producers, as they make up a very small proportion (1.9 per cent by area) of farm businesses in Wales

Source: National Assembly for Wales

2.11 Farmers also rely on the timeliness of these payments. The farming industry is affected by market forces, which in turn are influenced by the seasons, livestock breeding and grass growth cycles that dictate the buying, selling and moving of animals. Farmers do not earn a regular income to run their businesses. Representatives of the farming unions told us that if farmers did not receive CAP subsidy payments in the autumn, many were unable to compete effectively in the market with English farmers, they struggled

to pay the income tax due at the end of January and had to renegotiate overdrafts with their bank manager.

2.12 Assembly officials made the point to us that, notwithstanding past practice, the Assembly has no statutory obligation to pay farmers their CAP subsidies before the end of the relevant payment window and that this, alongside important notification of periodic changes in the payment windows, was made clear to farmers in the guidance documentation sent out to them. They also told us that, given the



importance of subsidy payments to farmers and so as not to delay payment unnecessarily, it was incumbent on farmers to ensure that all the information they provided in their claims was accurate, including information on their land, their business composition and, for those farmers claiming bovine subsidies, data on their cattle.

2.13 Representatives of the farming unions, however, told us that farmers were generally not aware of European Commission regulations concerning payment windows; farmers had come to expect to receive payments at around the same time as they had done in previous years and that was the basis on which they managed their businesses.

KEY POINTS

on the extent of the delays

- Payments due to farmers, for both CAP schemes and the Assembly's own domestic support measures, were significantly delayed from October 2002.
- The Assembly met their target that 96.14 per cent of payments be made within the payment window on only one CAP scheme. In total, for all CAP schemes administered by the Assembly, including the Tir Mynydd scheme, 75 per cent by value of payments were made within their respective scheme payment windows.
- Whether or not payments were made within the window, most farmers received their subsidies later than in previous years. Farmers' representatives told us that, in running their business - to which these subsidy payments are crucial - farmers relied on receiving their payments at the same time as they had done in previous years.
- Some payments made to farmers under the Assembly's own domestic support measures have also been delayed as the Assembly has focused its efforts on the CAP schemes, where the sums of money are much greater. For example, no payments at all were made in the four month period after 16 October 2002.

Reasons for the delays 3

3.1 There were several, linked reasons why the Assembly was unable to make payments to farmers when the first payment windows opened in October 2002. The most immediate reason was the inability of the Assembly to process payments using its new IT controls system (CAPIT). Many factors contributed to the problems in implementing CAPIT, particularly the outbreak of foot and mouth disease and the advent of new, complex European Commission regulations. This Part of the report looks at the main factors that contributed to the delays in making payments.

The Assembly needed to implement a new IT controls system (CAPIT)

3.2 The Assembly needed to replace its existing CAP scheme system (known as the Legacy system) because it had become very complex, outdated and was expensive to run. In particular, the Legacy system would not have been able to cope with the European Commission regulation which requires an

electronic Geographical Information System to be introduced by January 2005. Nor was it capable of supporting the flexibility which the Assembly wanted to introduce as part of the planned improvements in services to farmers under the JIGSAW programme. It therefore decided to develop and implement the new system, CAPIT: the core system to be in place in time for the payment windows opening in October 2002, and full functionality by 2003.

3.3 The payment process designed under CAPIT is complex, reflecting the complexity of the schemes themselves. It relies on correctly-completed forms being submitted by farmers, and is summarised in the box.

3.4 Assembly officials told us that they were already realising the benefits of the new system in a variety of ways. One example is the Geographical Information System project, part of the land-based control system. This was a major project, part of the JIGSAW programme, which involved capturing the boundaries of half a million registered agricultural fields across Wales and, in some



Making payments under CAPIT

Pre-printed forms are issued to farmers in line with each Scheme's application window; a farmer fills out the necessary amendments or additions to the pre-printed information and submits the application/claim forms by the appropriate date each year to the Assembly, either in Cardiff or to one of the divisional/area offices or hands in the form to an Assembly representatives located in local markets during application periods. The forms are first subject to an acceptance check to ensure that all the information to constitute a legal application has been provided, if deemed "acceptable", the forms are then scanned at the centralised scanning unit in Cardiff. The data are automatically captured at that point and, at the same time, a copy of the form itself is captured as an image and stored within the Document Management system. The data provided within the application/claim forms are then run against a series of business rules to ensure that the application/claim form has been correctly completed. After this stage, the data are then subject to checks against a further set of business rules to ensure that the information provided complies with scheme rules and regulations. Part of the validation of claims submitted under the Livestock schemes requires detailed validation to ensure that animals claimed are present on the holding, are of the right age, sex and breed and have remained on the holding throughout the retention period. These checks are carried out through a system operated by the British Cattle Movement Service, part of the Rural Payments Agency. For claims which require a valid Integrated Administration and Control System (IACS) application, details provided within a farmer's IACS application are also subject to validation. Once this process is complete, and when the scheme payment windows are opened, payments are authorised, batched and submitted to the Assembly's Finance Group who make the appropriate payment to the farmer.

Source: National Assembly for Wales

cases, England. As a result, 98 per cent of the Assembly's customers received a free, up-to-date map of their farm land. The Geographical Information System project was delivered two years earlier than required by the European legislation. Other examples are:

- offering greater flexibility in making system changes to account for changes in legislation, such as CAP reform;
- reduced costs through quick and efficient payment processing;
- better management information, allowing staff to track the status of an individual claim along with related information;
- easier systems administration to manage and run at managerial and technical levels; and
- better access to documentation.

The outbreak of foot and mouth disease and the advent of complex new legislation both caused problems for the CAPIT project

- 3.5 The environment within which the Assembly makes payments to farmers is complex. Each scheme has its own set of regulations with which the Assembly must comply if it is to secure full funding and to retain Paying Agency status. The CAPIT project took place against the background of further, unexpected difficulties caused by the outbreak of foot and mouth disease and the advent of complex, new European legislation.

Foot and mouth disease

- 3.6 At the initial outbreak of the disease in February 2001, a number of staff who normally worked on administering payments - including those at the most senior levels - were taken off their normal day-to-day duties to deal with the crisis either on a full time or part time basis. Assembly officials estimate that the development stage of CAPIT was set back by six months as staff were unavailable to discuss with the contractors their requirements for the new system.

- 3.7 Farm access restrictions during the foot and mouth outbreak also led to delays in field inspections (on-farm checks of the data declared on farmers' claims) in 2001, with a knock on effect onto 2002. The Assembly therefore utilised remote sensing to verify land-based applications selected for inspection. In order for the application to be fully verified, the boundaries for each holding had to be physically verified but access to the land was restricted. Assembly officials consider that farm access restrictions led to a deferral of a year in fully implementing the Geographical Information System for use with CAPIT, from October 2002 to October 2003.

New European Commission regulation

- 3.8 The Commission Regulation (EC) No 2419/2001, which came into force in January 2002, was a significant cause of delays in making payments on bovine schemes: the Suckler Cow Premium, Beef Special Premium and Extensification Payment Schemes². The main impact of the regulation was on penalties for irregularities in applications. Under the new regulation, irregularities in each bovine scheme application made by a farmer are aggregated, and one penalty is then applied in proportion to each scheme. This means that, for example, a farmer with an irregularity on their Suckler Cow Premium Scheme application would also incur a penalty on their Beef Special Premium Scheme application even if there were no irregularities on the latter. Penalties can therefore only be calculated after each bovine scheme application has been processed. Furthermore, the Assembly was unable to make any payments under the Extensification Payment Scheme until August 2003 as these payments can only be made once the farmer's Suckler Cow and Beef Special Premium Schemes have been paid in full.

² The regulation also covers the Slaughter Premium Scheme, administered by the Rural Payments Agency on behalf of the Assembly.

3.9 The bovine schemes by their nature are more complex than other livestock support measures. The application of cross-bovine penalties has added greatly to this complication, and they have proved awkward and time-consuming to implement for all United Kingdom Paying Agencies (nor would it have been possible to administer them under the Assembly's old Legacy system). In addition, since the Rural Payments Agency remains responsible for one bovine scheme for farmers in Wales, calculation of penalties requires liaison between the Rural Payments Agency and the Assembly, adding to the administrative burden.

3.10 A knock-on effect of the regulation has been to extend the need to cross-check cattle records against another source. As a guarantee of the accuracy of farmers' applications, as part of the validation process all cattle for which subsidies are claimed are cross-checked against the Cattle Tracing System (held by the British Cattle Movement Service, part of the Rural Payments Agency), a database which allows the registration and movement of animals to be monitored³. The previous payment year, starting in October 2001, was the first in which this cross-checking had been required and many anomalies had been found between applications and the Cattle Tracing System. Investigating reasons for each of these failures could take days, depending on the circumstances. If Assembly staff were unable to resolve the anomalies themselves they had to verify the information directly with the farmer. Cross-checking for the 2002-03 payment year did not start until February 2003 and many anomalies again were found. To add to the burden, following the introduction of cross-bovine penalties, not only those animals claimed for had to be checked, but also those cattle for which subsidies had not been claimed.

3.11 In recognition of the difficulties that many member states experienced implementing the regulation, the European Commission extended the relevant payment window deadline from the end of June 2003 to the end of July. However, Wales, along with the other parts of the United Kingdom, did not succeed in making the target of 96.14 per cent of bovine payments by the end of the payment window - see Figure 2.

The Assembly encountered several problems when introducing CAPIT, which caused delays in making payments

3.12 The core systems for CAPIT were implemented in May 2002, with the aim of using the new system for administering all CAP schemes except for the Beef Special Premium Scheme. This scheme, together with all domestic support measures (except Tir Mynydd), would continue to be processed through the Legacy system. The Legacy system was therefore to remain operational at least until the mid-term review on CAP reform in the summer of 2003 had been completed. However, foot and mouth and the changing regulatory environment (set out above) together created significant difficulties in implementing CAPIT such as:

- data capture through scanning redesigned forms;
- testing the new system;
- the establishment of a new customer database; and
- staff unfamiliarity with the new system.

Data capture

3.13 Scanning information from farmers' applications onto CAPIT was intended to speed up data capture. The redesigned forms were intended to reduce the information requested from farmers and pre-printed as much information as possible with the aim of making the form filling less of a burden than in previous years. The Assembly had run workshops throughout Wales to help farmers with the process, met farming unions to go through the new, simplified forms and informed farmers of the changes through *Gwlad*, its monthly magazine for the farming community. The new forms were also accompanied by a step by step guide on how to complete them. Despite these efforts, however, applications submitted on the new forms contained a much higher number of inaccuracies and inconsistencies which inevitably took time to resolve.

³ The farmer is responsible for checking that each animal on every claim is accounted for and that the data they provide the Assembly are consistent with the data on the Cattle Tracing System.

3.14 Early on, Assembly officials also discovered that scanners had difficulty recognising characters written on the forms because the forms were too dark. Another problem was that scanners were unable to identify any characters when the forms were not guillotined correctly and subsequently not fed properly through the machines, although this only affected a very small proportion of claims. The internal target set by the Assembly for scanning all of the Integrated Administration and Control System forms - which recorded key data underpinning applications for most CAP schemes - was 21 June 2002 but this was not achieved until early September in that year.

Testing

3.15 A vital element in implementing any new system is to ensure that it has been fully tested before it is put to use. In the case of CAPIT, owing to the complexity of the processes involved, Assembly officials underestimated the length of time needed to test the programmes. This applied particularly to the "business rules" - CAPIT programs which determined whether the data submitted by the farmer were correct and also then calculated the payment due. Applications could not be authorised for payment until they had successfully negotiated all the relevant business rules and thus been validated. Because of the concertina effect on development within CAPIT due to foot and mouth, Assembly officials decided to phase the release of the Integrated Area Administration and Control System validation rule sets. They released the data integrity rule sets in July 2002, which were originally planned for release in May of that year, but did not undertake full validation of the forms until October 2002, five months after its original target date.

3.16 Another consequence of the problems in testing the business rules was delays in Assembly staff contacting farmers to discuss any issues arising from applications. When staff began validating applications in August 2002 they only had available to them those business rules which had already been successfully tested. They therefore had to revalidate the same forms as and when more business rules programs had been tested and incorporated in CAPIT for use. Staff decided

to wait until a form was fully processed before contacting the farmer, rather than make contact every time a problem was detected through the staggered validation process. As a result, when staff began contacting farmers in November 2002 - a process which in previous years usually began in June - all queries arising from applications still remained to be resolved with farmers.

Customer database

3.17 European Commission regulations require that, from 2002, Paying Agencies such as Wales hold more detailed information on individual farmers' businesses. In 2002, the Assembly developed a database to hold, amongst other information, a unique reference number assigned to each farmer, to be kept even if the farmer were to move from their land. For the 2002 payment round, the Assembly sent to each farmer a Customer Details (Wales) form along with their Integrated Administration and Control System forms. Returned forms had to be scanned and validated alongside the application forms, which added to the existing workload of staff. Validation was a lengthy process as farmers, because of the unfamiliarity of the new forms, were more likely to fill them in incorrectly or fail to provide all of the information required. Furthermore, Assembly officials reported to us that, with the benefit of hindsight, the new forms had asked for some information that, due to regulatory changes, was not necessary.

Staff unfamiliarity with the new system

3.18 It took some time for all staff fully to understand how the new system worked. The Assembly used a "train the trainers" approach, whereby a number of Assembly staff were taught to instruct their colleagues on how to use the new system. This was a sensible method because the complexity of the agricultural support measures meant that those familiar with the schemes were best placed to train the users of the system. However, the volume and complexity of the training needed meant that the timescale for delivering the training programme was too tight, with the result that only the basic elements could be covered.

While CAPIT was being developed, the Assembly was also introducing a new finance system

3.19 An additional complication was the fact that at around the same time that the Assembly was developing CAPIT in its agriculture division, it was also implementing a new financial system, known as CODA, in its finance group. The Assembly's old finance system needed replacing as it could not properly support the Assembly's full move to resource accounting and budgeting in April 2002. Since it is the Assembly's finance system that effects the payments to farmers, it needs to link to the agriculture systems. CODA's core system was in place as planned in April 2002 and an interface between CAPIT and CODA was established in July, ready for CODA to receive information from CAPIT, once the latter became fully operational.

3.20 The contractors employed to develop CAPIT, Cap Gemini Ernst & Young, told us that the timetable for the project was demanding but realistic. They also said, however, that the decision that CAPIT should hold the "matrix data" - key information about each payment required under regulations to accompany the payment - was not made clear to them until late in 2001; the matrix data had previously been held on the predecessor system to CODA. The matrix functionality was in place within CAPIT by October 2002.

Other factors arose which also contributed to delays

3.21 A number of other factors also contributed to the delays. Most were unforeseen, outside the Assembly's control, and therefore unavoidable. **Figure 8** sets out these factors, which are described more fully in the paragraphs that follow, in the order in which the Assembly became aware of them.

8 Other factors that contributed to the delays in making payments

Factor	Foreseen/ Unforeseen	Date of Assembly awareness
Loss of key personnel	Unforeseen	Feb 2001 onwards
Asbestos, Llandrindod Wells Divisional Office	Unforeseen	July 2001
CAPM move to Llanishen from Cathays	Foreseen	September 2001

Source: National Audit Office Wales

Loss of key personnel

3.22 As well as the temporary diversion of staff to deal with foot and mouth, Assembly officials told us that the division responsible for administering payments, CAP Management division, had suffered in the last two years from a significant increase in the number of staff leaving, either on promotion within the Assembly or to elsewhere. In 2002 the division lost 36 of its total approved complement of 541 posts (seven per cent), with a similar level of departures is expected in 2003; in the two previous years, 26 and 20 staff had left the division. Although these numbers were not large, officials pointed out that they were often their most marketable staff - in many cases key people - and that this was a consequence of the training and experience provided under the JIGSAW programme.

Asbestos at Llandrindod Wells divisional office

3.23 In July 2001, asbestos was found in the divisional office building in Llandrindod Wells during renovations. The 130 staff based there continued to work on the site whilst sections of the building were being cleared. It took one and a half years fully to remove all traces of the asbestos. As a result of the disruptions, staff experienced delays in training for the changes introduced by the JIGSAW project, which has had implications for the smooth implementation of CAPIT.

CAP Management division move to Llanishen

3.24 In September 2001, the Assembly's CAP Management division moved from the Assembly's headquarters in Cathays Park in the centre of Cardiff to an office in Llanishen, in the outskirts of the capital. This relocation was caused by the considerable pressure on and demand for workspace at Cathays Park with the advent of the Assembly. The CAP Management division were judged to offer the best match with the criteria that had been set for candidate workgroups (such as size and independence from other divisions). However, the move inevitably caused physical disruption to the running of the division, particularly to the IT team, who had previously suffered from the effects of moving locations. Another consequence of the move was the disruption and delays caused by the network upgrades needed to link the divisional offices, Llanishen and Cathays Park. This meant that staff at divisional offices were unable to begin using CAPIT until July 2002 and had up until this point received little or no training.

The Assembly's contingency arrangements enabled payments to be made but did not prevent their delay

3.25 Bringing in a major new system, such as CAPIT, inevitably entails risks. These risks need to be managed to ensure that the core business - making prompt, accurate payments to farmers - is affected as little as possible. The inherent risks in introducing CAPIT were compounded by the implementation of the new finance system, CODA, and the presence of the other factors set out in Figure 8. To guard against risk when undertaking major projects such as CAPIT, organisations need to have robust contingency plans in place that allow them to respond quickly and effectively in the event that projects do not proceed as planned.

3.26 Assembly officials set up a comprehensive risk management system for the CAPIT project, with around 1,000 separate risks and issues identified and monitored by the CAPIT Project Board. In their view, Assembly officials did all they reasonably could to manage the many and varied risks that are inevitably associated with a project of this nature, making the point that managing risk is not the same as eliminating risk; eliminating risks would rule out any change or innovation.

3.27 A common tool to mitigate the risk of implementing new computer systems is parallel running, whereby both systems hold the same data and run the same processes independently of each other. In theory, this would have allowed the Assembly to substitute one system for another if one system were to fail. However, Assembly officials decided in 2001 that running the old Legacy system and the new CAPIT system in parallel was not a realistic option. Implementing new European Commission regulations, in particular the need for aggregated bovine cross checks, was not possible under the old system and parallel running would have meant major redevelopment of the Legacy system alongside the development of CAPIT. The cost of this, together with the additional burden for farmers who would have to complete two sets of paperwork, was, in officials' view, prohibitive.

3.28 Cost was also a significant factor why Assembly officials considered that deferring the introduction of CAPIT by a year was not an option. As well as the costs involved in upgrading the Legacy system, there would also have been the significant costs of extending the contract for the development of CAPIT by a year. A full and detailed cost benefit analysis of deferring implementation was not undertaken as Assembly officials considered that this would have diverted key resources away from making payments.

3.29 Assembly officials' contingency if ongoing problems implementing CAPIT put the Assembly's ability to make payments at risk was to use its Legacy system and, as set out in Part 4, the Legacy system was extended to make payments on all of the schemes except the Suckler Cow Premium and Extensification Payment Schemes. But the significant work needed to modify the Legacy system was not started until August 2002, too late to guarantee timely payments on all schemes. The impact of the delays experienced on the CAPIT project therefore inevitably fell mainly on the Assembly's ability to make timely payments to farmers - part of CAP Management division's core business.

KEY POINTS

on the reasons for the delays

- The most immediate reason for the delays in making payments was wide-ranging problems associated with implementing a new IT system, CAPIT, to administer them. The CAPIT project was greatly affected by the outbreak of foot and mouth disease, which diverted key Assembly resources away from CAPIT development for six months, and the advent of complex new European Commission regulations. Other problems with CAPIT included difficulties with data capture, underestimates of the time needed for testing, the added complication of the introduction of a new customer database and staff unfamiliarity with the new system.
- At the same time that it was developing CAPIT, the Assembly also implemented a new financial system, CODA. It is the financial system which, based on information from the CAP system, actually makes the payments to farmers, so the two systems had to link. The separate development of CODA had an impact on the timing of CAPIT.
- A number of other factors also contributed to the delays. As well as a greater proportion of errors in farmers' applications, most were outside the control of the Assembly: these included the loss of key personnel and the discovery of asbestos at the Assembly's Llandrindod Wells office. Within its control, however, was the Assembly's decision to move its CAP division to a new location in September 2001.
- To mitigate the major risks involved in a project of the type of CAPIT, Assembly officials set up comprehensive risk management arrangements. This meant that when problems did occur in implementing CAPIT, the Assembly was able to make payments using alternative means. However, as shown in Part 2, many of these payments were delayed.



4 The Assembly's management of the delays



4.1 In August 2002, Assembly officials recognised that the difficulties the Assembly was encountering with CAPIT might jeopardise its ability to make payments to farmers. This Part of the report considers the steps that the Assembly took in response, and considers whether payments are likely to be paid in a timely fashion in 2003-04.

Assembly officials developed a hybrid process to enable payments to be made

4.2 In the summer of 2002, Assembly officials realised that the Assembly was unlikely to be in a position to be able to authorise payments at the opening of the payment windows in October: CAPIT was not yet sufficiently functional, and the Legacy system was not a straightforward backup since it could not communicate with the Assembly's new finance system, CODA. An additional complication was that neither the Legacy system nor CODA had been designed to hold the matrix data (paragraph 3.20).

4.3 Against this background, in September 2002, Assembly officials decided to create a hybrid process comprising the Legacy system, CAPIT and CODA, which together had all the elements to allow them to begin making

payments. Before the hybrid process could enable payments to be authorised, work had to be done to link the systems together. A new programme (a "payment extraction programme") had to be developed between the Legacy system and CODA with each scheme tested against it to ensure the matrix elements were correct. The payment extraction programme took around two months to develop. Because of the need to pull in data from a number of different systems, the hybrid process is technically very complex (see box).

4.4 The Assembly had originally intended to use the Legacy system to make payments in 2002-03 only for the Beef Special Premium Scheme. In the event, the Assembly also used the Legacy system as part of its hybrid process for the Sheep Annual Premium and Arable Area Payment schemes.

4.5 Throughout the period after the opening of the payment window in October 2002, Assembly officials focused their limited resources on the most pressing tasks. For example, the Arable Area Payments Scheme window closed earlier than the other CAP schemes, at the end of January 2003, and in the run up to that point, Assembly officials concentrated their efforts on authorising as many payments under that scheme as they could. However, this inevitably had a knock on effect on other schemes.

The hybrid process

The hybrid process is complicated. For example, for most schemes the following processes need to take place (this is not an exhaustive list):

- 1 Integrated Administration and Control System and Customer Details (Wales) forms are scanned into CAPIT. Claim data are manually entered onto the Legacy system.
- 2 Integrated Administration and Control System and Customer Details (Wales) data are validated on CAPIT and transferred to the Legacy system.
- 3 Claims are validated on the Legacy system.
- 4 The payment extraction programme passes payment data from the Legacy system to CODA.
- 5 Matrix data are extracted from the Legacy system and transferred to CAPIT for storage.
- 6 CODA makes the payment to the farmer and returns the data confirmation to CAPIT.

Assembly officials took a number of other steps in an effort to mitigate the effect of delays

4.6 As well as developing the hybrid process to enable payments to be made, Assembly officials took a number of other steps to mitigate the effect on farmers. These were:

- decoupling the main Sheep Annual Premium Scheme payments from the Less Favoured Area supplement;
- making manual hardship payments;
- approaching the European Commission;
- establishing a dedicated call centre for farmers; and
- paying interest on particularly late payments.

Each is explained in the following paragraphs. During this period, many staff worked long hours and on the weekends to concentrate on reducing the large number of invalid forms.

Decoupling Sheep Annual Premium Scheme payments

4.7 The Sheep Annual Premium Scheme comprises two elements, the main payment and a separate payment for farmers in less favoured areas. The former does not require validated Integrated Area Control System forms before payments can be made. Assembly officials therefore took the decision to make the two elements of the payments separately, as they were able to pay the main payment sooner than the supplement.

Hardship payments

4.8 In November 2002, Assembly officials began to process "hardship payments". This was not additional money but manually-processed subsidy payments to farmers whose applications had already been validated and who were suffering financial hardship as a

consequence of the delays. In order to qualify, farmers were required to prove financial hardship, usually in the form of a banker's letter. By 25 June 2003, 293 farmers had been paid manually in this way, 196 of these under CAP schemes.

4.9 The relatively low take up of this option can be partly explained, according to the farming unions, by farmers' reluctance to admit that they were in financial difficulty as well as the deterrent additional cost of securing a letter from the bank (although Assembly officials told us that copies of rent demands or similar evidence would have proved sufficient). Another reason for the low take up was that Assembly officials and the farming unions agreed that the service should not be widely advertised (although it was mentioned to farmers in financial difficulty by call centre staff - see below) as they recognised that dedicating more time to processing hardship payments would result in diverting resources from the key task of processing claims automatically.

Approach to the European Commission

4.10 In January 2003, Assembly officials asked the United Kingdom co-ordinating body (the body which represents all United Kingdom Paying Agencies with the Commission) to seek approval from the European Commission to make advance payments against Suckler Cow Premium Scheme applications before they had been validated, with the intention of commencing full validation for balance payments. The Commission denied permission on the basis that the Assembly would be in breach of a major control mechanism, and because Assembly officials thought at that time that they would be able to make payments by the end of the payment window on 30 June. Assembly officials did not ask the co-ordinating body to approach the Commission with requests for other schemes as other schemes are subject to similar regulatory controls.

Call Centre

- 4.11 On 14 January 2003, the Assembly set up a call centre in Llanishen to deal exclusively with all calls from farmers, including those relating to delayed payments. The intention was that the call centre would provide a dedicated service to answer farmers' queries regarding their payments and other matters, thereby freeing up time for divisional office staff to work on processing applications for payment. All calls were charged at the local rate. The centre received a total of 11,216 calls, an average of 374 calls a day, ranging from 570 per day when the phone lines first opened and reducing to a low of 245 per day. The Assembly took the decision to close the call centre after 28 February, as the number of calls had significantly reduced and staff in the divisional offices were better able to handle calls again. (Assembly officials also said that working at the call centre had been very stressful for the staff involved.) The total cost associated with the call centre, excluding the cost of Assembly staff time, was some £11,000.
- 4.12 The call centre, which had six telephone lines, was staffed mainly by people from the headquarters of the Assembly's agriculture division who did not necessarily have experience of dealing directly with farmers on these issues. Although some of the call centre staff had considerable CAP scheme experience, there was a steep learning curve for others in bringing themselves up to speed. This was addressed through a day's intensive training, plus the presence, for most of the period the call centre ran, of a member of staff from a divisional office. The location of the call centre in the CAP Management division headquarters also gave staff access to CAPIT policy and operational staff based there which proved useful in handling some queries.
- 4.13 The reaction of farmers to the call centre was mixed. Assembly officials told us that they had received positive feedback from farmers. However, in its submission to the Assembly's Agriculture and Rural Development Committee's meeting on 12 February 2003, the National Farming Union Cymru reported that they had received numerous complaints about the call centre and that it had caused enormous frustration to farmers. This was perhaps inevitable as farmers' main concern

was receiving their subsidy payment, and also because of the limitations in the information that call centre staff had available to them - for example, they did not have access to the finance system until towards the end of the period the call centre ran. Many queries needed to be sent through to be investigated by staff based in the divisional offices, resulting in a time delay before the farmer obtained the information sought. According to the Assembly's monitoring, over 1,700 calls - about 15 per cent of all those received - required referral. Overall, however, Assembly officials concluded that, at a critical period, the call centre succeeded in its main aim of relieving pressure on processing staff; without it, the delays would have been greater.

Interest payments

- 4.14 There is no legal obligation for the Assembly to pay interest for payments delayed under either CAP schemes or domestic support measures. However, in 2003 the Assembly Government decided to follow the example set in England in a previous year and to make interest payments to help farmers to cover the additional interest incurred on borrowing from lenders. Again following the English precedent, the Assembly Government set the rate at one per cent above the London Inter-Bank Offered Rate, the same rate the Assembly adopts in recoveries where an overpayment has been made. Payments are subject to a de minimis qualification of £50 for each CAP scheme except for the bovine schemes which are aggregated for this purpose. Farmers qualify for interest payments only if the delays are due to the Assembly's administrative failures and they receive their subsidy payments outside the payment window or, in the case of domestic support measures, later than 60 days after the anniversary date. The payment window end date was the starting point for interest payments⁴, reflecting the rules of the schemes as regards payment obligations.
- 4.15 In May 2003, the first interest payments were made to those who received their Arable Aid payments outside the payment window. As at 30 October, a total of £24,441 had been paid on the Arable Aid Payments Scheme, and a further, £12,547 under domestic support measures. In November 2003, interest payments under

⁴ In recognition of the delays with payments for the bovine schemes, the Assembly announced in July 2003 that interest payments on the Beef Special Premium and Suckler Cow Premium Schemes would be triggered from the original payment window end date of 30 June 2003, rather than the extended 31 July.

the Sheep Annual Premium Scheme started and Assembly officials told us that they planned to start paying interest under the bovine schemes in January 2004.

- 4.16 Representatives from the farmers' unions told us that, although the interest payments were welcome as far as they went, the rates payable were considerably less than the additional interest that farmers would be charged on their overdrafts - apart from the extra costs involved in extending existing overdrafts or taking out new loans. They also made the point that £50 de minimis threshold penalised farmers, particularly those making applications under more than one scheme who might not reach the threshold on any one scheme but exceed it comfortably in total.

The Assembly was over-optimistic about prospects for payments in its communications with farmers

- 4.17 In the difficult circumstances in which the Assembly found itself, effective communications with farmers became very important. The Assembly sought to be as open as possible in its communications, providing its best estimate of the situation at any given time. Senior Assembly staff met representatives from the farming industry in September 2002 and provided regular written updates on progress. The call centre, described above, was another way of ensuring that farmers had access to information about their claims (although its primary aim was to release staff to work on process applications).
- 4.18 However, the messages sent out by the Assembly proved to be overly optimistic, expecting a far quicker resolution of problems than subsequently was possible. **Figure 9 overleaf** compares some of the statements sent in updates by the Assembly to farming unions with what actually transpired.
- 4.19 There is no suggestion that the Assembly deliberately sought to mislead farmers about when they could expect their payments. Assembly officials stressed that the messages given out at any one time were based on the latest available information. However, when some of the Assembly's reassurances to the farmers proved to be unfounded, they had the effect of further damaging relations
- between the Assembly and its clients. Farming unions made the point to us that, since the inception of the Assembly and the greater focus on customer care under JIGSAW, relations between the farming community and officials had greatly improved but that the Assembly's over-optimistic communications had adversely affected these relations.

The Assembly and the contractor worked in partnership on developing CAPIT

- 4.20 Assembly officials sought an innovative solution to their requirement for a system to administer subsidy and grant payments for farmers. Rather than establishing a fixed fee for a single, tightly-specified product, the contract between the Assembly and the contractor, Cap Gemini Ernst & Young, was characterised by flexibility - considered essential if it was to take account of all relevant European Commission regulations, which can change each year. To be successful, the project therefore required the Assembly and Cap Gemini Ernst & Young to work in partnership together. This partnership approach was reflected in the contract's risk and reward payment mechanism. A "target price" was agreed for each specific "work package" based on Cap Gemini Ernst & Young's forecast costs. If actual costs proved to be lower, then Cap Gemini Ernst & Young and the Assembly shared the resulting extra benefit. Similarly if costs turned out higher than forecast, the Assembly paid only a proportion of the additional cost.
- 4.21 Both the Assembly and Cap Gemini Ernst & Young believe that the partnership arrangements have worked well and that a genuine culture of openness and team working has been created. This has enabled them to tackle the problems that arose while implementing the system more successfully than would otherwise have been the case. Assembly officials told us that there was no fixed budget for CAPIT, as the contract was based on time and materials costs. However, they estimate that the total cost of CAPIT was within two per cent of the original estimate for the project. And Cap Gemini Ernst & Young told us that they had provided some resources free of charge to enable the project to continue.

9 Messages from the Assembly about the likely progress of payments

Date of letter	Statement	The reality - see also Figures 2 and 3
Sheep Annual Premium Scheme		
10 October 2002	"Our target for releasing the payment ... is before the end of October"	Payments started mid-November 2002
Sheep Annual Premium Scheme - LFA supplement		
10 October 2002	"we anticipate being able to start making the payment in	Payments started mid-December 2002. 82% paid by closure of window at end March 2003
24 December 2002	"we expect that the vast majority of cases will have been released over the next six weeks"	
Arable Area Payment Scheme		
10 October 2002	"We are ... aiming to make these payments as soon as possible after the payment window opens" [on 16 November]	First payment made 24 January 2003; 53% paid by closure of window
24 December 2002	"we are still aiming to make payments within the payment window, ie by 31 January 2003"	
Beef Special Premium Scheme		
27 February 2003	"46% of payments have been processed ... we expect that the vast majority of outstanding cases will be released over the next six weeks"	68% paid by end March 2003
Suckler Cow Premium Scheme		
10 October 2002	"Our best estimate at this stage is that payments should start ... by the end of December	First payment made 31 March 2003

Source: National Audit Office Wales analysis of Assembly correspondence

Assembly officials have learned some valuable lessons and have made a good start in making payments from October 2003

4.22 Assembly officials have learned a number of lessons from their difficulty in processing applications in the 2002-2003 payment round, all of which have been implemented in preparation for the CAP payment round beginning in the autumn of 2003. These include:

- increasing the regularity of Cattle Tracing System cross checks from weekly to daily on the Suckler Cow Premium scheme;

- earlier feedback to farmers on their Integrated Administration and Control System forms, addressing data errors earlier;
- changing the screen layouts on CAPIT to mirror application forms;
- decoupling the main Sheep Annual Premium Scheme payments from the Less Favoured Area supplement; and
- quicker decisions to use contingency plans, should they be needed.

In addition, there has been a further year of development of CAPIT and its associated systems in which time staff have become more accustomed to the new system and the new culture.

4.23 The payment window for most 2003 CAP subsidy payments opened on 16 October 2003. On the first two days that the new payment windows opened, the Assembly told us that it made payments amounting to £74 million, about 50 per cent of the total estimated expenditure for all CAP schemes for the 2003-04 payment round. Timely payments were also now being made under the Assembly's domestic support measures.

KEY POINTS

on the Assembly's management of the problem

- Once the Assembly recognised that it would not be able to make payments on time, it did what it reasonably could to mitigate the effect delays would have on farmers.
- The Assembly sought to maintain effective communications with the farming community. However, its over-optimism concerning its ability to make payments, when communicated to farmers only served to antagonise them further.
- The contract for the development of CAPIT was based on partnership working between the Assembly and the contractor, Cap Gemini Ernst & Young, with the risk and reward payment mechanism reflecting this partnership approach. The contractor told us that it had provided some resources free of charge to enable the project to continue.
- Assembly officials have learned a number of valuable lessons from the payment problems they have experienced, all of which have now been implemented. For the payment year starting in October 2003, the Assembly was successful in making about 50 per cent of payments by value on the first two days that the payment window opened.



Appendix 1

Study methodology

The main objectives of this study were to determine the reasons for the delays in agricultural payments and whether the Assembly handled the problems efficiently and effectively.

The issues examined were:

The extent of delays and impact this has had on farmers. We interviewed representatives of the National Farmers Union Cymru, the Farmers' Union Wales and the Country Land and Business Association. We received case studies from the three organisations and spoke to a small number of farmers regarding their individual experiences. We gathered statistical data from CAPM and from transcripts from various Agriculture and Rural Development Committee meetings.

The reasons for the delays. We interviewed Assembly officials in CAPM, the head of Agriculture and Rural Affairs Department, and Heads of the Assembly Finance. We also spoke to staff at the Carmarthen Divisional Office and the Assembly's Geographic Information Services.

The Assembly's management of the problem. Again, we interviewed various Assembly officials along with staff at other Assembly offices. We also consulted the farming unions on their experiences of the Assembly's handling of the problems.

In addition, we contacted the Rural Payments Agency in England for its perspective on the issues covered in this report.

Appendix 2

Assembly response to the Agriculture and Rural Development Committee report

Introduction

This paper is my response to the findings of the former ARD Committee investigation into the delayed 2002 CAP subsidy payments and outlines the procedures in place for the future.

Response

I have considered carefully the ARD Committee report issued in March 2003. I recognise that there has been a problem in making 2002 scheme payments, and I very much regret the adverse effect of this on farmers and their businesses. This was particularly disappointing for us, given the high standards of delivery we had established in previous years.

I note that the Committee have drawn a number of conclusions and made some recommendations in their report. I will respond in the same order that they have been raised.

Paragraph 24 of the report states

"In particular the Committee remains unconvinced":

- "that the Minister ensured adequate contingency plans were in place"

The project was planned in great detail and those plans were monitored by the Project and Programme Boards so that remedial action could be taken at all stages should it be necessary. Alternative approaches were considered by the project board which constantly monitored project risks. For example the board considered parallel running of the old and new computer systems to minimise the risk of delayed payments, but this approach could not be pursued without utilising a significant amount of resources in order to make the systems compatible. In addition, parallel running would have significantly increased risks in certain areas and may well have increased bureaucracy for farmers to unacceptable levels.

Decisions were taken to implement contingency arrangements when it became clear, for example, that payment dates were likely to slip as a result of longer than expected testing schedules. For example, we retained some elements of the old operating system to enable us to issue SAPS main payments last November and 65% of AAPS payments by 31 January.

- " that the Minister explored fully all of the possible options available to make interim or hardship payments to farmers"

From a very early stage, hardship payments were made available and staff worked extremely hard to get them out as quickly as possible. To date 300 farmers have received their subsidy payment via the hardship route. By March this year, when the new payment system became operational it was considered that making payments manually at that stage would have been unlikely to enable a payment to be released more quickly than an automatic payment as the same checks had to be undertaken for either payment system and that continues to be the case. Equally, it would have been counter-productive to encourage a wider use of the manual facility as staff would have had to have been diverted from processing claims automatically.

In respect of interim payments the European Commission were approached in January of this year to ascertain whether advance beef payments could be released with a view to undertaking full validation at balance stage. This approach was unsuccessful.

- "that adequate communication took place between the Welsh Assembly Government and representatives of the farming industry about the scale and likelihood of potential delays"

I accept that communication can always be improved. I am aware that meetings and presentations took place and that there was a regular flow of correspondence between officials and farming unions. Officials always sought to give their best estimates of timings of when payments would start, though it is never possible to predict how long payments will take to process. This sometimes led to farmers and their representatives feeling let down if individual payments were not made as soon as processing began.

There is a balance to be struck between announcing the likely start of processing of payments and raising expectations that all claims will be dealt with on that date. I have asked the Director of Agriculture and Rural Affairs to discuss with farming unions how lines of communication can be further improved for the future.

- "that the decision to implement changes to both the CAPM validation and control system and the finance division's payment system at the same time was correct"

The introduction of the new subsidy payment system (CAPIT) was absolutely essential as the old system was outdated, expensive to maintain, was unable to meet new EC regulations and may have eventually put the Assembly's Paying Agency status at risk. The project to replace the outdated Agriculture payment system began in May 2000 and continues until March 2004.

The Assembly's new finance computer system (CODA) had been planned for a number of years to replace an old system which did not properly support the Assembly's full move to Resource Accounting and Budgeting from April 2002. This system went fully live on 1 April 2002.

It was therefore inevitable that there would be some overlap between the two projects and a degree of risk to each as a result. These risks were known and managed as far as possible. However, I would accept that this element of the management of the project is one lesson we would wish to learn and it will be an issue for project evaluations in due course.

Delay in the implementation of either of these two new systems would have had significant cost implications.

- "that the required interface between the two systems was properly considered beforehand"

Representatives of the Finance and CAPIT project boards met to identify the joint requirements necessary for a functional interface between the systems to allow payments to issue. However, I would accept that the complexity of the interface was underestimated. In hindsight it would have been prudent to have addressed this earlier in the project and this is one of the central lessons learned.

Recommendations set out at Paragraphs 25 - 29 of the report

"Key to its success will be communication by the Welsh Assembly Government to ensure the National Assembly and the farming industry are properly informed."

Communications with farming unions and the agriculture industry more widely have improved dramatically over the last few years. I have already outlined what the Assembly Government intends to do to improve communications with farming unions even further and we will continue to keep our customers informed about payments e.g. through regular reports in the Gwlad magazine, in order to ensure that they have sufficient and clear information on which to base their business decisions.

"that the Welsh Assembly Government learns lessons for future change and IT projects in the National Assembly."

There will be a full evaluation of the JIGSAW Programme and the CAPIT project in 2004. Lessons learned will be promulgated in light of that report which the Committee will no doubt wish to consider at the appropriate time. In the interim, lessons learnt sessions have been held and key lessons shared with the MERLIN programme.

"that the Welsh Assembly Government takes the necessary steps to ensure that farmers receive the payments to which they are entitled as a matter of urgency."

I have attached a brief summary of the current position re CAP payments for information at annex 1 to this paper.

"Current arrangements should continue for the manual processing of hardship payments, the payment of compensation for additional interest incurred due to late payment outside the permitted window and for providing assurances to lenders of forthcoming payments."

The 2002 payment system is now operational and it is quicker and simpler to make subsidy payments by this route rather than the resource intensive manual system. However interest payments incurred as a result of late payments have been made and will continue to be made manually.

"that the Welsh Assembly Government reports regularly to the ARD Committee (or its successor following the Assembly elections in May 2003) on progress in making payments in the 2002 scheme year and on the position with regard to the coming year."

I intend to keep this Committee fully informed of progress in making 2002 payments and the position with regard to the 2003 payments.

"the need for statements on payment delays made by the Welsh Assembly Government to be full clear and consistent so as to allow sound business decisions to be taken"

I will keep this Committee and the industry fully apprised of progress in meeting our targets.

"that the Welsh Assembly Government considers all of the factors that led to payment delays to ensure that lessons are learned for future change and IT projects in the National Assembly."

Lessons learnt sessions have been held at regular intervals of the project and key lessons shared with the MERLIN programme. A full evaluation will be undertaken at the end of the project and lessons learned will be disseminated throughout the Welsh Assembly Government. We expect the NAO to undertake their VFM study in 2004 and their findings and recommendations will be made widely available.

Prospects for 2003.

16,580 IACS applications have been received for the 2003 Scheme year. These are currently being scanned on to the CAPIT system. This work is well advanced in comparison with 2002. Consequently, the 2003 validation process will start much sooner than last years' exercise which means that 2003 SAPS, and beef payments are currently on schedule to issue in Mid October and AAPS payments to issue in November. I will immediately inform this Committee and the farming industry if there is any slippage to this timetable.

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