

## **Chapter 10**

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**Department of Agriculture and Food**

## 10.1 Single Payment System

### Background

The Single Payment System (SPS) was introduced in 2005 as part of the new measures agreed to reform the Common Agricultural Policy. It changed radically the basis on which payments are made to farmers by decoupling payment and production and consolidating a range of scheme-based payments into one single payment. It also required the development of a range of new business processes by the Department of Agriculture and Food (the Department) and significant personnel and organisational changes.

With effect from 1 January 2005 the SPS replaced various cattle, sheep and arable aid support schemes. Most schemes were fully decoupled from production with effect from 1 January 2005. The exceptions were dairy premium introduced in 2004 and fully decoupled since 31 March 2005, and the dried fodder scheme, which has been partially decoupled (50%) to date.

In view of the radical changes involved in the introduction of the SPS my staff undertook a high level review of the processes and procedures adopted by the Department to manage the new environment.

### Implementation of the SPS

The regulatory framework governing the SPS is EU Regulation 1782/2003. In addition EU Regulation 795/2004 lays down the detailed rules for the implementation of 1782/2003 while EU Regulation 796/2004 details the rules for the implementation of cross compliance, modulation and the integrated administration and control system provided for in 1782/2003.

There is no national legislation implementing the SPS. It has been implemented by way of Ministerial Decision, as were the schemes it has replaced.

The EU regulations gave countries a choice of implementing the new system between 2005 and 2007 and of initially opting for full or partial decoupling. Ireland was the first country to opt for full decoupling and opted, per Government decision, to begin issuing SPS payments from 1 December 2005, the earliest date allowed.

The SPS is applicable to farmers who actively farmed during all or any of the three reference years – 2000 to 2002 - and who were paid livestock premium and/or arable aid in one or more of those years and who will farm, or whose successors will farm, in 2005.

The Department, in its role as Paying Agency on behalf of the EU, has the same responsibilities for administration and for exercising financial control, in regard to the SPS, as it had for the previous schemes.

The Department had developed and managed a sophisticated information and communications technology (ICT) environment over many years. The SPS required the calculation of each farmer's entitlement, based on the unique history of the farm over the reference period 2000-2002, and the processing of over 140,000 SPS applications for payment by December 2005. The Department had a relatively short period of time from the Government announcement in October 2003 in which to acquire the necessary ICT systems. It approached the task in a pragmatic way by the extension of some relevant existing IT contracts and by open tendering for other elements of the system. Total development costs to end 2005 were almost €5m with additional costs of approximately €2.7m expected in 2006 for support, maintenance and change requests.

## National Reserve

A National Reserve was established in accordance with EU Regulation 1782/2003. This is a fund created to compensate farmers, by way of new entitlements or a top-up on existing entitlements, for disadvantages arising in their specific circumstances from the introduction of the SPS. The National Reserve can be financed by a deduction from entitlements of up to 3%. The actual deduction was applied at a rate of 1.82% and so a National Reserve of €22.7m was created. An amount equal to the value of unclaimed entitlements is also transferable to the Reserve. The Department estimates that some €5m will be credited to the National Reserve from entitlements that were not activated in 2005.

Defined categories of farmers are automatically entitled to apply for an allocation of entitlements from the Reserve. To date some €12.4m has been allocated to successful applicants under the 2005 National Reserve. Farmers who receive new entitlements from the Reserve may not sell, lease out or otherwise transfer (except in cases of inheritance or gift), any of the entitlements that they receive from the Reserve for a period of 5 years starting from the year of allocation.

## Deductions and National Ceiling

Under the EU legislation governing the SPS, there is a national ceiling for the total value of entitlements for each of the years to 2012. Ireland's national payments ceiling for 2005 was initially €1,136m but was subsequently increased to €1,260m by Commission Regulation 118/2005 to take account of the deferred inclusion of the Dairy Premium scheme in the SPS in 2005. Under the regulation, this ceiling cannot be exceeded and, if necessary, a linear reduction must be applied to entitlements to ensure compliance. In the event the sum of entitlements established for farmers exceeded the ceiling by some 1.18% and it was necessary to apply a linear reduction amounting to some €15.1m.

Entitlements are also reduced for modulation – a process whereby funds are diverted from the SPS to rural development measures. The modulation reduction in 2005 was 3% and this will be increased to 4% in 2006 and 5% from 2007 onwards. A refund of the modulation reduction applied to the first €5,000 of each farmer's entitlement will be issued in 2006 as provided for in the regulation. In practice this will amount to a maximum of €150 per farmer payable in 2006.

I asked the Accounting Officer how the Department would ensure that the National Ceiling for 2005 was not exceeded in light of the payments made to date, the deductions made for the National Reserve and modulation payments yet to be made in respect of applications not yet processed.

In reply he informed me that, as the National Ceiling is €1,260m and the reduction for the National Reserve was €22.7m, the amount available for payments in respect of 2005 was therefore €1,237.3m. The total amount paid to June 2006 (excluding payments from the National Reserve) was €1,160.3m, net of modulation at 3%. The total spend to date (including modulation payments of €34.7m) is therefore €1,195m.

He stated that the Department was satisfied that the payments made under the 2005 SPS would not exceed the National Ceiling because of the preventative action taken and various controls implemented as part of the payment process.

## 2005 SPS Payments

The SPS entitlement is calculated using the average number of livestock (hectares in the case of arable aid schemes) on which payment was made under each scheme in the reference years 2000 to 2002, multiplied by the 2002 payment rate for that scheme.

In the course of my examination of the new system I carried out a test check of the calculation of entitlements and their payment. This proved satisfactory.

Some 118,000 payments were made in December 2005 totalling approximately €1,058.6m (net of 3% National Reserve and 3% modulation reductions). All applications processed for payment in December 2005 were paid. However, approximately 10,000 farmers received no payment then as their applications had not been finalised. At the time of audit examination this number had been reduced to approximately 3,000.

The Accounting Officer informed me that 8,565 payments amounting to €85.7m in respect of 2005, excluding payments out of the National Reserve, were made in the period January to June 2006. A further €27.4m of supplementary payments, including National Reserve payments, was paid to 10,396 farmers in the same period. He also informed me that, at the end of June 2006, there were approximately 900 applicants, under the 2005 SPS, who had not been paid. A small number of other applicants would also become eligible following the processing of their application to transfer entitlements to them.

In the course of my examination I noted that a reconciliation had not been carried out between the total payments recorded on the SPS system in December 2005 and the SPS payments shown in the SAP accounting system. The Accounting Officer has informed me that the reconciliation has since been completed.

## Force Majeure

Farmers who felt that their production was adversely affected by exceptional circumstances during some or all of the reference period (2000-2002) could claim force majeure. If the claim was accepted, the years in which production was adversely affected were excluded from the reference years in calculating entitlements. Where it was accepted that such circumstances arose during all of the reference years, the Department could use the period 1997-1999 as an alternative reference period. Examples of force majeure would be death or long-term incapacity of a farmer.

The European Commission conducted an examination in 2005 of force majeure claims and in their findings commented that the Irish authorities, in examining such cases, did not fix clear percentages to measure dips in production and recommended the introduction of a coherence test to ensure that all claimants were treated in the same way. The Commission's opinion resulting from their examination was that the Department might not have fully complied with the regulations.

In response, the Department stated that the objectives of article 40 of 1782/2003, the article dealing with force majeure, would not have been met if it were decided to fix clear percentages to measure reduction in production. It also stated that in every single application the circumstances put forward by the applicant were carefully examined to determine whether or not such circumstances satisfied the criteria for force majeure/exceptional circumstances. This was done by insisting on full documentary evidence such as death certificates or medical evidence. Having satisfied itself that the circumstances put forward, whether occurring during or before the reference period, could give rise to a dip in production, the Department examined each case to determine if, in fact, a dip in production actually occurred in one or more of the reference years. Departmental databases allowed for the examination of the patterns of production. In conclusion, it was stated that the Department was satisfied that its implementation of the article was in accordance with the provisions of that article and was the most equitable way of dealing with applications.

In 2005 the overall number of force majeure applications was 17,592. Of these 4,266 (including those allowed at appeal, etc) were accepted for payment and the number rejected was 13,326. The total paid on the 4,266 cases was €51.9m and the force majeure element of this sum was €8.5m.

## Appeals Committee

An Appeals Committee was established by the Minister for Agriculture and Food in February 2004 to review the cases of farmers who were not satisfied with the Department's decisions in relation to their SPS entitlements.

Up to June 2006, a total of 4,943 appeals were considered. 509 appeals were upheld, 4,287 were not, 44 were deemed to be invalid and 103 had not been finalised. Applicants in 64 cases not upheld have complained to the Office of the Ombudsman. Following review, the Department has changed decisions in eight of these cases, often in light of further information.

Since March 2006, the Appeals Committee is also considering appeals in relation to the allocation of entitlements from the National Reserve. Some 900 such appeals have been lodged with the Appeals Committee but, as at the end of June 2006, no decisions have yet been made by the Committee.

## Cross Compliance

Under cross compliance requirements, a farmer receiving a SPS payment must implement the various Statutory Management Requirements (SMRs) set down in EU legislation on the environment, food safety, animal health and welfare and plant health and must maintain the farm in good agricultural and environmental condition (GAEC). Seven cross compliance SMRs were introduced in 2005 together with the GAEC requirements for Ireland. A further eight SMRs, including the Nitrates Directive, were implemented in Ireland in 2006 while a further three are to be introduced with effect from 1 January 2007.

For farmers selected for inspection, there are two types of checks carried out for the purpose of implementing the SPS - eligibility checks and cross compliance checks. Eligibility checks verify the accuracy of areas being farmed and claimed for. It is a requirement that all eligibility checks are completed prior to payment. There are two types of inspections – ground (on-site) and remote sensing by satellite. It is an EU requirement that eligibility checks be carried out on 5% of farmers applying for the SPS.

A Commission audit of cross compliance was carried out during 2005 which raised a number of issues on the method used to select farms for inspections and the level of sanctions imposed on non-compliant farmers. The Commission auditors had further comments on weightings applied to the cases of non-compliance, application of sanctions and tables and instructions used for inspecting various SMRs.

A number of the audit comments were accepted by the Department in January 2006 and, as a consequence, some changes have been made. I enquired what implications these had for the number of cross compliance inspections required to be carried out and the number of inspection staff. The Accounting Officer informed me that the inspection visits are integrated with eligibility inspections with a view to ensuring, as far as possible, that only one visit was made to each farm. In this context, inspections under the Disadvantaged Areas' Compensatory Allowance scheme were also integrated with the eligibility and cross-compliance inspections under the SPS. The consequence of the introduction of the revised risk analysis model was that, while the number of farm visits will be reduced by 2,000 visits, the time spent on each farm will be significantly increased as inspection report forms will have to be completed in respect of each SMR necessitating an inspection of the total farm by the inspection staff.

## Conclusions

The introduction of the SPS marks the single biggest change in the operation of the Common Agricultural Policy since its inception over 30 years ago. The Department faced major challenges in determining farmers' entitlements under the new system and making, what are in effect, key income support payments to the individuals concerned by the December 2005 deadline. This had to be done in accordance with complex EU regulations and subject to rigorous EU scrutiny. The evidence available so far suggests that the Department planned its approach to these tasks in a strategic manner and implemented them in a pragmatic and generally satisfactory way.

## 10.2 Staff Savings

It was anticipated at an early stage that the introduction of the SPS would lead to significant staff savings in the Department. The savings were expected to arise, as the full decoupling of farm support payments from production and the associated rationalisation of farm income support schemes would require less administrative effort. It was also anticipated that the staff savings would be partly offset by an increased level of controls linked to the introduction of cross compliance under the SPS.

Correspondence with the Department of Finance in April 2005 indicated that the Department felt it would be able to operate with some 400 less staff. The breakdown of the 400 was

- 250 local office staff
- 100 staff from the Department's office in Castlebar
- 50 staff from the area aid division in Dublin.

It was noted that, as of April 2006, local office staff numbers had been reduced by 152. This was achieved through 35 internal transfers within the Department and the departure of 117 staff from the Department - mainly through transfer to other Government departments, retirements and career breaks. It was also noted that 56 staff from the Castlebar office had transferred to the Department of Justice (Garda Information Services Centre). As it was expected that area aid staff would be required to administer SPS for the remainder of 2006, no reductions had been made in this area.

In September 2005 the Department commenced a review of District Veterinary Office (DVO) staffing levels. The review was carried out in the context of falling disease levels and efficiencies arising from the introduction of the new Animal Health Computer System (AHCS). The review report, issued in March 2006, found that some 115 less staff would be required in the local DVOs.

It was therefore estimated that the Department could make total staff savings of 515 in the relevant areas. As actual transfers out of the Department to April 2006 were 173, savings yet to be made at that stage amounted to 342.

I asked the Accounting Officer

- How many staff had worked on schemes replaced by the SPS?
- What measures were taken by the Department to ensure that these staff were redeployed as quickly as possible? In the meantime what measures had the Department taken to ensure that all of these staff were gainfully employed?
- What difficulties had been experienced by the Department in relocating staff where alternative local relocation opportunities were not available and how had these been overcome?
- Had the Department experienced particular difficulties in relocating or redeploying technical staff such as veterinary staff and, if so, how did the Department propose to address the difficulties?
- When was it expected that the anticipated staff savings of 115 in the DVOs would be achieved?

The Accounting Officer informed me that, in all, some 400 administrative, 185 technical agricultural and 12 inspectorate staff worked on schemes replaced by the SPS. He stated that the Department had worked closely with the Department of Finance, other Departments and also with staff associations with a view to redeploying surplus staff. Apart from the 50 administrative staff in the Area Aid unit, who were still an integral part of the SPS operation and not yet available for redeployment, approximately 250 of the balance of the 350 administrative staff had been accounted for, by the end of June 2006, through redeployment, natural wastage, promotion etc.

He further stated that his Department, with the assistance of the Department of Finance, had facilitated the possibility of temporary blocks of work being transferred from other Departments to Departmental locations where alternative local relocation opportunities were not available. The Department of the Environment, for example, had availed of the surplus Departmental staff in Ballybay. In other offices, surplus staff, because of their experience with the previous schemes, were working on certain measures relating to the continuing implementation of the SPS.

He informed me that it was not yet clear how many technical/inspectorate staff would be surplus, if any. While the number of annual inspections had decreased, the complexity had increased, particularly with the introduction of a range of cross compliance and environmental measures. To date, the Department had concentrated on the redeployment of surplus administrative staff but intended to review the situation regarding technical/inspectorate staff in the near future.

Finally he stated that the rate at which staff could be redeployed from DVOs was dependent on the number of vacancies arising in other Departments or offices in the same geographical location.

## **Conclusions**

Issues associated with re-organisation and re-deployment of staff affected by the introduction of the SPS might fairly be described as work in progress. The Accounting Officer makes it clear that these issues must be advanced in conjunction with the Department of Finance, staff representatives and indeed other Departments and agencies who may have a need for staff in locations where Department of Agriculture and Food staff are no longer required as a result of the introduction of the SPS. While this is no doubt the case, there remains a pressing need to ensure that professional, technical and administrative staff formerly working on schemes now replaced by the SPS are deployed in the most efficient and effective way possible in the new environment.

