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Convener to the Rural Economy and Connectivity  
Committee  
The Scottish Parliament  
EDINBURGH  
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## **COMMON AGRICULTURAL POLICY: FUTURES PROGRAMME**

Thank you for inviting me to update the Rural Economy and Connectivity Committee on 25 January, and for your follow-up letter of 31 January. I have provided a response at Annex A. Please accept my sincerest apologies for the slight delay in getting this to you.

I also enclose the latest monthly report from Scottish Government officials to the Public Audit and Post-Legislative Scrutiny (PAPLS) Committee (Annex B). The report outlines progress since the Committee's meeting on 25 January and provides an update on issues arising over that period.

I have copied this letter to the Convener of the PAPLS Committee, Jenny Marra MSP.

The next monthly report will be provided by Scottish Government officials in the week beginning 27 March.

**FERGUS EWING**



## Annex A

### Outstanding 2015 Payments

*To provide an update on when the remaining 2,408 outstanding payments will be processed following the next release of functionality (Col 26)*

These 2,408 outstanding payments fall under the Less Favoured Area Support Schemes (LFASS). The loan scheme has ensured that businesses which need it have been able to access funding until payments are finalised. As of 20 February, the number of outstanding LFASS payments has dropped to approximately 1,700 and, following additional IT functionality drops, officials are striving to make more payments. However, we are not yet in a position to confirm when LFASS payments will be completed as officials are in the process of ensuring that all IT fixes have worked as planned. We will keep the committee fully informed of further progress.

### Penalties

*To clarify what contingency has been made for the potential €5 million penalty for late 2015 payments and where this is allowed for in the budget (Col 30-34)*

and

*To confirm whether the potential €5 million penalty is considered to be a liability or a contingent liability (Col 33)*

The Scottish Government (SG) treats disallowance as a contingent liability until such time as the actual value of penalty being levied has been agreed. Once officials have received written notification confirming the value, they will create a provision for this amount within the Annually Managed Expenditure (AME) budget. The £5 million is purely an estimate and the final figure will be dependent on the outcome for the UK as a member state and payments made between 16 October 2016 and 30 June 2017.

### Transfer of BPS Entitlements

*To give detail of the difficulties encountered with transfers of entitlements, which resulted in farmers not being offered a loan (Col 39)*

The delay in processing BPS payment entitlement transfer requests is due to the IT functionality not being available to date. Officials will take the necessary action to transfer entitlements between businesses on Rural Payments and Services (RP&S) as soon as the functionality becomes available. As at 20 February, we have issued written confirmation of the validity of the transfer requests to 343 individual producers and we continue to work on the remaining 76 applications (61 individual producers).

Initial loan offers were made to transferees based on previous entitlements, with top-up loan offers being calculated and issued as manual checks of the applications were completed.

## Schedule of Audits

*To share the schedule of audits by the European Commission and the European Court of Auditors (Col 31 and 46)*

### **European Commission Audits**

<b>Audit</b>	<b>Date</b>
Cross Compliance 2014	April 2014
Area Aids 2015	May 2015
RD Axis 2	Sept. 2015
Leader 2015	Sept. 2015
VCS Beef 2016	April 2016
Desk Audit of National Reserve	June 2016
RD land based measures	October 2016

### **European Court of Auditors Audits**

<b>Audit</b>	<b>Date</b>
LPIS-GIS	October 2015
DAS 2015 (EAFRD)	November 2015
DAS 2016 (EAFRD)	27 June to 1 July 2016
Introduction of BPS	October 2016
Greening	March 2017

*To report back to the Committee following Audit Scotland's report to the National Audit Office (Col 45)*

As discussed at Committee, there was a deadline set for the report of mid-February. Due to the nature of the delays we have experienced we wrote to the Commission to ask for time derogation. The Commission granted derogation until 1 March 2017. We will share the recommendations from this report in our next monthly update.

### New Entrants

*To outline the eligibility requirements for new entrants into farming to be entitled to a payment from the national reserve. In addition, to confirm the number of new entrants who have received this entitlement as compared to the number who applied and an overview of the main reasons why applications may be refused. (Col 49-50)*

The eligibility requirements in relation to New Entrants is outlined online at:  
<https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/national-reserve/national-reserve-full-scheme-guidance/>

The guidance states that applications can be considered from sole traders, partnerships or a limited company that started farming in 2013 or later. They should not have carried out agricultural activities in their own name or at their own risk, or have had a controlling interest in the business, in the five years prior to their application for New Entrant funding.

In addition, the first application for Basic Payment Scheme must be submitted no later than two years after the calendar year in which agricultural activity started to qualify as a new entrant.

As of 7 February there were 331 applications to the National Reserve fund received from New Entrants. Of these, 246 (74%) were deemed eligible.

## 2016 Payments

*To provide further information on the practical problems and reasons why under the new CAP system it is no longer possible to make payments in December (Col 51-52)*

The payment window is 1 December – 30 June and all efforts will be made to make payments within that window each year. Many payments used to be made at the start of the payment period, but that is no longer possible, for the following reasons:

- first, the introduction of the new CAP in 2015 brought significant additional requirements to be checked and inspected before any payments can be made. Scotland's unique geography and topography make this task particularly; and
- second, the complexity of the policies we have introduced, such as the industry desire for three regions, have introduced complexities into the payments system.

## Annex B CAP Payments

### 2015 Payments - Total. All numbers stated correct as of 08/02/2017

Over 40,000 payments in total made to businesses and farmers

- £467.7 million paid out in total
- An additional 2,125 payments made to businesses and farmers since the update to the Public Audit and Post-Legislative Scrutiny (PAPLS) Committee on 8 December 2016
- An additional £3.03 million has been paid out since update on 25/01/17

### 2015 Payments – Pillar 1. All numbers stated correct as of 08/02/2017

£385.2 million paid out across Pillar 1 schemes

- 99.7% of those eligible under the Basic Payments, Greening and Young Farmer schemes have received payment (£343.0 million)
  - 33 payments are still outstanding (£0.2 million)
- 99% of those eligible under the Beef and Sheep schemes have received payment (£42.2 million)
  - 36 payments are still outstanding (£0.1 million)

### 2015 Payments – Pillar 2. All numbers stated correct as of 08/02/2017

£82.5 million paid out across Pillar 2 schemes

- 95% of those eligible under the Rural Priorities Scheme have received payment (£24.5 million)
  - 199 payments are still outstanding (£3.8 million)
- 87% of those eligible under the Land Managers Option scheme have received payment (£2.9 million)
  - 355 payments are still outstanding (£0.4 million)
- 79% of those eligible under the Less Favoured Area Support Scheme (7,532) have received payment (gross value £46.7 million). There are 2,408 outstanding claims (gross value £17.4 million). Of these:
  - 398 payments have been initiated, worth approx. £707,755 (net of loans already paid), and should reach bank accounts by 22 Feb
  - 1,440 have received loans equalling their total payment and will receive no additional payment (gross value £1.4 million)
- AECS and FGS payments currently total £8.4 million

### 2015 Payments – Loans. All numbers stated correct as of 08/02/2017

16,357 businesses received over £145 million in loans

- 5,286 loans were made in respect of the 2015 Basic Payments Scheme of which 5,234 have been recovered to date (£92.7 million)
  - 52 loans outstanding (£0.3 million)
- 11,056 loans were made in respect of 2015 LFASS with a value of £54 million of which £40 million has been recovered to date.
  - £14 million in loans remains to be recovered from outstanding LFASS payments
- 15 loans were made in respect of hardship (£0.1 million) and have been recovered from 2015 BPS payments.

## 2016 Payments

1. Our priorities are, to ensure that outstanding 2015 payments are made, and to ensure that rural businesses receive 2016 payments as soon as possible. The functionality for commencing processing of 2016 SAF applications has now gone live. Area office staff will process applications with a view to making the first 2016 payments in March. As with 2015 payments, we will be working with our stakeholders to provide them with up to date payments information.

### Risks and mitigations

2. The biggest risk for 2016 payments remains slippage in the deadlines for adding new essential functionality to the IT system and addressing known system defects. Key mitigations:

- We are continuing to work closely with our contractors to ensure that dates for the delivery of future functionality meet delivery needs;
- We have introduced more robust testing methods pre-launch to help ensure that the system, when launched, much more reliable;
- We have increased the support to area offices and taken steps to ensure that staff are more familiar with the system prior to system go-live; and
- Principal Agricultural Officers have been reviewing staffing levels and improved processes between Area Offices and Saughton House for work planning, effective decision making and issuing guidance (learning from SAF 2015) have been put in place.

3. We expect that 2016 payments under Pillar 1 will be made and substantially completed between March and the end of June 2017. As is usual, while we are working hard to minimise the potential for this, there is often a tail of payments which take longer to process.

4. We have used the learning from this first year of the new CAP regime to improve our governance, processes and training.

### IT and system costs

5. Based on the current IT delivery plan and the existing monthly spend profile, we are on track to complete within the £178 million budget. Although the Futures Programme will close, as planned on 31 March 2017, an estimated £6.7 million (from within the overall £178 million budget) will be carried over to spend in the next financial year to complete functionality on the Land Parcel Information System, a new accounting and payment system (SACAMS) and further automation of Pillar 2 schemes (Claims to Payments).

### National Basic Payments Support Scheme 2016 (Loans)

6. As of 8 February 2017 we have made loan payments to 13,246 farmers, crofters and businesses of £272.89 million. Following the successful delivery of the majority of 2016 loan payments, the loan scheme was closed to general applications on 20 January 2017.

7. A small number of top-up loans are still being processed for businesses who have recently had a transfer of entitlements confirmed. These businesses are being contacted directly by the loans team. Moreover, area offices have been asked to contact farmers, crofters and businesses in their area that they consider might benefit from a loan payment to

encourage them one final time to apply urgently. Every effort has been expended to ensure the maximum number of businesses benefit from a loan payment under the 2016 Scheme.