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Pierre Bascou
European Commission
Directorate-General for Agriculture and Rural Development
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Dear Pierre,

CAP PILLAR 1 PAYMENT DEADLINE – REQUEST FOR EXTENSION

Thank you for the recent discussion about the issues that would inform consideration of a request from the Scottish Government to extend the deadline for making Pillar 1 payments beyond 30 June 2017 for the 2016 scheme year.

I am now writing to set out in more detail the basis of our request and to ask whether the European Commission would be prepared to agree to such an extension.

The Scottish Government has made good progress in its implementation of once in a generation changes to the CAP regime as it applies in Scotland. Progress has been made in delivering the Rural Payments and Services IT system in partnership with CGI, which is a transformational IT programme designed to support the significant changes that are being made to CAP delivery here over the period 2015-20. For example, the system was available for over 98% of the recent SAF17 application window and the Scottish Government was in a position where we felt able not to take up the derogation that was available to extend the SAF deadline.

However, the significant transformation initiated in the 2015 scheme year, and reflected in the payment extension provided last year by the EC, is continuing to have an exceptional impact on the delivery of 2016 Pillar 1 payments. In particular, the regulatory requirement to move away from historical based allocation to use of a regional based system, which was a challenge that few other countries in the EU apart from Scotland faced in 2015 (as most countries had moved to a regional based system under the previous CAP regime) created significant implementation issues for Scotland. These unfortunately continue to challenge us.

In communications with our own customers we therefore rightly described this as the most radical reform to the CAP in Scotland for a generation. In fact, the challenges of implementing a three payment region model at individual land parcel level, creating a complex mosaic, affecting over 450,000 separate land parcels across Scotland, rather than simply set against geographical or county boundaries, has proved more difficult than could reasonably have been expected, not least in dealing with the consequences of continued changes to individual land parcels.

A single region model would have been impossible to deliver in Scotland, given the very large range of land quality we have and the clear policy input provided by stakeholders, and our approach was in line with the policy flexibility offered under the new CAP. This continues to present challenges in the data held for the 2015 scheme year, which has a direct bearing on the calculation and validation of 2016 payments.

The introduction of the new CAP regime and its impact on paying agencies' systems was reflected in the extension given to the SAF application window for the 2016 scheme year. While the extension provided was helpful in securing take up of scheme opportunities, it has reduced the time available for planning and processing 2016 payments.

Due to the Scottish Government's overriding objective of ensuring payments meet necessary levels of compliance and regularity, significant work has been undertaken to validate 2016 payments and this had led to holds being placed on a number of payments over recent months. While we are in the process of moving these payments towards ready to pay status, this presents risks around the end-June target.   A key factor will be the effectiveness of the latest series of IT functionality and maintenance releases.

This is a complex and dynamic system that is continually trying to reflect the behaviour of farmers, producers and farm business, supported by a complex process of data integration. There are nearly 500,000 land parcels, covering 4 million hectares of land, and there are a myriad of scenarios that can occur from parcel splits, merges, sales, transfers, growth options, growth compatibility, shared parcels, greening and tenancy, with implications across 2015 and 2016 data. Due to the dynamic nature of the system, 2016 SAF applications can move back from Ready to Pay status as a result of updated retrospective information becoming available.

In response, we took the extraordinary measure of commissioning an external technical assessment to help us consider whether we should continue to invest in the system, or whether we should rethink our approach. That report informed us that the underlying architecture is sound, but there is significant technical debt in the system. The level of technical debt is exceptional and needs to be fixed. To that end, we have developed a remedial action plan in collaboration with our IT contractors. We are confident that when that work is complete, we will find it significantly easier to make payments through the system.

The Scottish Government is confident that its transformational IT programme is making progress and will deliver the functionality required to make 2017 scheme payments within relevant timescales, supported by our operational decision not to extend the SAF17 application window. A report published this month by Audit Scotland draws attention to the progress that has been made and the action that is in hand going forward.

Overall, we are investing £178 million in the development of the RP&S system to deliver the capability to administer fully compliant CAP schemes now and offer design flexibility and improved customer experience for the long term. However, the CAP implementation issues that underpinned the extension offered for 2015 payments continue to have a very direct and day by day impact on the operation of the RP&S system's ability to process 2016 payments. The historical nature of these issues means that their impact cannot be controlled through the allocation of additional resources or by making further changes to programme management now, and are therefore in practical terms outwith our direct control.

The Scottish Government therefore respectfully seeks the European Commission's agreement to extend the payment deadline from 30 June to 15 October for Pillar 1 payments, on the grounds of the acutely challenging delivery and implementation issues we face in Scotland. The nature of these challenges are such that we strongly feel that an extension or penalty waiver is justifiable under Article 5(4) of Regulation 907/2014 on the basis of "exceptional management conditions" and " justified reasons".

I am copying this letter to the UK Co-ordinating Body.

ANDREW WATSON
RPID: Deputy Director for Agricultural Policy Implementation