

CAP Subsidy Report

Introduction

1. The National Assembly for Wales administers Common Agriculture Policy (CAP) payments for farmers in Wales from a headquarters in Cardiff, three divisional offices located in Caernarfon, Carmarthen and Llandrindod Wells and 9 area offices located across Wales. Provision for CAP payments to farmers in Wales is currently more than £150m annually with over 150,000 individual payments made each year to around 16,000 farmers. Payments under the major CAP subsidy schemes are required by the EU to be made between certain dates – payment windows – which, in the current scheme year, began in October or November 2002 and continue until the end of March or June.
2. In recent years, the National Assembly has had a good record with farmers receiving payments towards the early part of the permissible window and often before equivalent payments have been made to farmers in England. But in the autumn of 2002 it became clear that the introduction of new computer systems would cause some delay in the payment of subsidy cheques. For farmers assuming early payments, and relying on these to maintain their projected cashflow, this sometimes had serious financial implications. At first, the problem centred on the payment of Sheep Annual Premium (SAP) and, in November 2002, the Agriculture and Rural Development Committee invited the Farmers Union of Wales and the National Farmers Union Cymru-Wales to discuss their concerns. The unions declined this initial invitation as, by that stage, SAP payments had begun. However, in January 2003, both unions contacted the Committee again as delays were then affecting other schemes. In February, the unions submitted written evidence to us and expanded upon this in committee. The Committee then held two separate evidence sessions with the Minister for Rural Development and Wales Abroad in an attempt to identify the cause of the delays and to learn lessons for the future.
3. Our ability to investigate the matter in detail has been limited by the time available to us, especially given the fact that the Committee will cease to exist after the Assembly elections in May until a successor committee is established. Nonetheless, we feel it important to report on the limited investigation we have been able to conduct.

Background

4. The payment delays experienced in 2002 and 2003 arose from problems associated with the introduction of new computer systems in the National Assembly's CAP Management (CAPM) and Finance divisions.

The JIGSAW Programme

5. The introduction of the new system in CAPM was part of a more general change programme known

as Joint Initiative for Government Services Across Wales (JIGSAW). JIGSAW began in 1999 following recommendations from consultants who had been asked to advise on how to improve the poor services the then Welsh Office provided to farmers. Many new initiatives were put in place to improve services, such as improvements to front office services, customer contact and internal processes, as well as the implementation of a new IT system to deal with subsidy payments. Until this year, an already good record on payments was maintained during this period of change.

The CAPIT Project

6. A major part of the JIGSAW programme was the introduction of a new computer validation and control system to replace existing systems that were difficult and expensive to support. A new system was also needed to satisfy a European Commission requirement to base the payment of claims on a Geographic Information System.

7. The programme to replace the existing IT systems (known as CAPIT) began in 2000 and is a joint project by Welsh Assembly Government staff and contractors, *CAP Gemini Ernst and Young*. The original CAPIT project plan was to complete core systems development by May 2002 and to transfer schemes from the existing systems throughout the remainder of the year and the first quarter of 2003.

8. By May 2002 the core system had been completed. However, the Minister told the Committee that full implementation of the new system was delayed as a result of a number of factors including:

- the foot and mouth outbreak;
- the introduction of a new computer system in the National Assembly's finance division, which resulted in considerable effort to resolve technical and business interfaces. This was of particular significance as payments and controls rely on both systems working together;
- availability of key staff;
- the completion of Cattle Tracing System cross-checks in advance of paying cattle subsidies;
- the preparation and training of staff; and
- longer than expected periods of testing to ensure robust controls.

9. The project now aims to complete by the beginning of 2004 (as opposed to the original March 2003 end date).

CAP subsidy payments in Wales

10. The table below shows the sums involved in each of the main CAP subsidy schemes affected.

CAP subsidy payments in Wales

11. Payments due under the six major schemes operating a payment window amount to almost £150 million. By the beginning of March, around two thirds of this (£94 million) had been paid out. It is important to note that the EU permitted payment window has not yet ended for most of the larger schemes. By the close of the window on the Arable Area Payment Scheme, 55% of the sum due (and 65% of claims) had been paid.

12. Payments under schemes in the lower part of the table are usually made on the anniversary of entry to the scheme rather than on the basis of a payment window. Some of these too have been subject to delay.

Actions taken or considered by the Welsh Assembly Government.

13. During the course of our investigation, the Committee explored the various steps taken by the Welsh Assembly Government to avoid or alleviate the effect of delayed payments.

Postponement of implementation

14. On 5 March, the Minister told the Committee that ‘in the beginning of September I was informed that we could possibly have a delay of several weeks in making the first payments’. For the implementation of the new IT system to have been postponed, and controls and payments for the 2002 scheme year to have been made via the old system, a decision would have needed to have been taken at the end of 2001. Welsh Assembly Government officials told us they saw no factors to prompt such a deferral at that time. Even if they had done, such a decision would have negated the preparatory work

already undertaken, brought risks associated with using the existing, ageing system for a further year and risked confrontation with the European Commission for not adhering to their requirement to introduce a geographical information database.

Dual running of computer systems

15. The Minister's officials explained how use had been made of the old payment system to test and accelerate some payments, although full dual-running of the old and new payments systems had not been possible. To have done so would have required considerable additional resources and run the risk of audit breaches if the information held on the two systems differed. Fundamental to the decision not to dual-run was the need to hold IACS control information on one system only. This could only be done through the new IT system. The view of the Welsh Assembly Government, therefore, was that, given this requirement and competing resource constraints, it would not have been possible to have operated both systems at the same time.

Employing additional staff

16. The Minister's officials explained the limitations on the amount of technical resource that can be usefully assigned to an IT issue at any one time. Given the nature of the work involved, they were satisfied that delays could not have been avoided through the allocation of additional staff resources.

Interim payments

17. The Welsh Assembly Government, via the co-ordinating body for UK payment agencies, approached the European Commission informally to seek their views on making part-payments of the suckler cow advance on the basis of unvalidated data. Had this been granted, cash flow problems for some farmers could have been eased. However, the Commission refused permission for a move that would have breached a major control mechanism. The Welsh Assembly Government judged that the Commission would have taken the same view in respect of the other schemes subject to similar regulatory controls and so no further application to the Commission was made.

Helpline

18. On 14 January, a telephone helpline to assist farmers with CAP subsidy payment queries was launched. The Committee received conflicting views on the effectiveness of this service. For example, at our meeting on 29 January, the Minister reported that the helpline was receiving in excess of 400 calls per day and that feedback from farmers and their representatives on the quality of help was generally positive.

19. The farming unions gave a different view. NFU Cymru-Wales told us:

We have received numerous complaints about the helpline. It was described as a dedicated helpline to

deal with delayed payment queries. In actual fact all queries were diverted there causing enormous frustration to farmers. The helpline would appear to be understaffed given the difficulty farmers tell us they have at getting through. Calls are taken but callbacks are not honoured. 12 lines, 6 staff, and over 400 hundred calls a day. We suggest that with such volumes of calls, 6 staff isn't sufficient to provide efficient service.

Communication with farmers and farming unions

20. In addition to the telephone helpline, the Welsh Assembly Government sought to keep the industry informed about progress in various ways. Officials met farming union representatives in mid September to tell them of the risks of delays to scheme payments and to explain how they proposed to manage the situation. All farmers received, in November's *Gwlad* magazine, a letter explaining the position on SAPS. More generally, regular reports of progress, planning and performance within CAPM have been provided to the unions since early 2000.

21. The farming unions recognised the efforts made by Welsh Assembly Government officials to keep them informed of the emerging situation but also expressed concern that they had not been given full details of the extent of the problem as early as they would have wished. NFU Cymru-Wales, for example, said that they '*were given the impression at a meeting with WAG in September that SAPS 2002 payments were expected to be made within a week of the payment window opening. There was no indication of how significant or serious the delays would be².*'

Public statements

22. In their oral evidence to the Committee, both farming unions expressed concern that the industry had received mixed messages from Welsh Assembly Government Ministers, with information relating to intended and likely payment dates changing over time so making it difficult for farmers to plan properly.

23. From October 2002 onwards, Ministers were questioned frequently on CAP subsidy payments in committee and plenary sessions of the National Assembly. The Committee is in no doubt that Ministers and officials were careful not to mislead when responding to this kind of public questioning but we can also understand how farmers might attach undue certainty to Ministerial statements about expected payment dates. Included in Annex A are examples illustrating how information on the major schemes was reflected in Ministerial statements.

Hardship payments

24. In November 2002 the Welsh Assembly Government began manually processing urgent payments to farmers who had applied on the grounds of financial hardship. The farming unions told the Committee that the limited take-up of this facility (201 payments made by 4 March 2003) could reflect an unwillingness amongst farmers to admit to financial difficulty as much as an absence of need.

Interest payments

25. The Welsh Assembly Government has indicated that it will consider making compensation payments for additional interest incurred on borrowing by farmers who receive payments outside the permitted windows. These payments would be subject to a *de minimis* qualification of £50 and would only be considered if delay was solely as a result of Welsh Assembly Government administration.

Conclusions

26. The Committee undertook this investigation as a result of the potentially significant effect delay in subsidy payments has on the viability of the agriculture sector in Wales. In order to complete our work before the Assembly elections in May, we have not been able to conduct as extensive an investigation as we would have wished. We have not, for example, been able to examine in detail the management of the introduction of the new payments system, the various Ministerial and official decisions taken or all of the lessons that should be learned for the future.

27. In particular, the Committee remains unconvinced:

- that the Minister ensured adequate contingency plans were in place;
- that the Minister explored fully all of the possible options available to make interim or hardship payments to farmers;
- that adequate communication took place between the Welsh Assembly Government and representatives of the farming industry about the scale and likelihood of potential delays;
- 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;
- that the required interface between the two systems was properly considered beforehand.

28. Considerable work remains to be done to ensure that the JIGSAW project delivers its objective of more efficient services that meet the expectations of the industry and the European Commission. Key to its success will be communication by the Welsh Assembly Government to ensure that the National Assembly and the farming industry are properly informed. It is also essential that the Welsh Assembly Government learns lessons for future change and IT projects in the National Assembly.

29. We recommend 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. 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;

30. We recommend that the Welsh Assembly Government reports regularly to the Agriculture & Rural

Development 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 also;

31. We emphasise 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 made.

32. We recommend 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.

Annex A

Sheep Annual Premium Scheme

(payment window - 16 October 2002 to 31 March 2003).

On 30 October 2002, the Minister reported in Committee that ‘payment of Sheep Annual Premium and the national envelope top-up should be made to farmers within the next two weeks.’ In response to a question in plenary on 12 November, the First Minister said that he hoped to process and issue those payments by the end of the month. Payments began on 18 November and, on 26 November, the Minister for Rural Development reported to plenary that, ‘we are on target to pay over 90% per cent of premium claims by the end of this week’. This was achieved. On 15 January 2003, the Minister informed the Committee that 92% of main premium claims and national envelope payments had been processed. This figure had risen to 96% by 12 February, and 98% by 4 March.

Sheep Annual Premium Scheme Less Favourable Area Supplement

(payment window - 16 October 2002 to 31 March 2003).

On 30 October 2002, the Minister reported in committee that, ‘Less Favoured Area supplements were likely to be made later in November in line with payments in England³’. On 26 November, the Minister told plenary that payments would begin in early December⁵. Payments started on 12 December. At the 15 January Committee meeting, the Minister reported that 23% of payments had been made⁶, by 12 February 60%⁷ and 5 March 76%⁸.

Suckler Cow Premium Scheme

(payment window - 16 October 2002 to 30 June 2003).

In response to a written Assembly question in November, the Minister stated that ‘we expect to start processing valid claims for advance payment after Christmas’. At the 15 January Committee meeting, the Minister reported that the development of a payment system for advanced payments had yet to be finalised and ‘we are unlikely to start processing claims until some time in February⁶’. At the following meeting, the Minister reported that ‘we are unlikely to start processing claims until at least late February’. At the Committee’s meeting of 5 March, the Minister reported a ‘significant risk (that) payments will not begin until well into March⁸’.

Beef Special Premium Scheme

(payment window - 16 October 2002 to 30 June 2003).

In response to a written Assembly question in November, the Minister stated that ‘we expect to start processing valid claims for advance payment at 80% of the full rate in December’. Advance payments commenced in December, with a small amount of producers receiving payments before the end of the month⁶. At the 12 February and 5 March meetings of the Committee, the Minister reported that 42% and 49% of claims had been processed respectively^{7,8}.

3 ARD Committee 30 October 2002 ref. ARD 14-02 (min), minutes of the meeting.

4 Record of Proceedings 12 November 2002, p13

5 Record of Proceedings 26 November 2002, p94

6 ARD Committee 15 January 2003 ref. ARD 01-03(p1) Annex 3

7 ARD Committee 12 February 2003, oral update to the Minister’s Report

8 ARD Committee 5 March 2003 written update to the Minister’s Report

9 ARD Committee 5 March 2003 ref. ARD 04-03(p1)

10 Assembly written questions 14-21 November 2002 p.4

11 ARD Committee 29 January 2003 ref. ARD 02-03(p1) Annex 2

12 Assembly written questions 14-21 November 2002 p.5