

**STATEMENT FROM MINISTER MICHELLE O'NEILL MLA
UPDATE ON FINANCIAL CORRECTION BY THE EUROPEAN COMMISSION AND
DEPARTMENTAL RESPONSE**

1. Fáilte romhaimh
(Welcome)
2. With your permission Mr Speaker, I wish to make a Statement to update members on the work my Department has carried out to tackle the problem of financial corrections (commonly known as disallowance) applied by the European Commission. In doing so, I will provide an update on the levels of disallowance and the degree to which I think we are making progress on these issues. I also want to give Members some detail on the changes that are taking place and the implications of these for farmers. In particular, I want to tell members about developments in regard to our legal challenge to the Commission and about the issue of new maps to farmers for 2013.

Recap of the context

3. The Department of Agriculture and Rural Development is one of over 80 accredited paying agencies in the European Union. We pay out around €300 million to the agricultural industry each year under the Single Farm Payment scheme in addition to monies expended under the Rural Development Programme. We are accountable to the European Commission for this spend. We have to be able to provide an assurance that there are sufficient controls in place to guarantee that accurate and timely payments are made to those who are eligible for this aid.
4. As members know, Commission auditors raised concerns that our mapping system wasn't good enough, that the inspections were not good enough, and that our approach to sanctions and penalties was too lenient. They also took the view that our approach to allowing different farmers to use the same field to support different schemes did not meet the requirements of the EU legislation. There were other audit recommendations too, but these represent the most significant sources of disallowance.
5. It is important to note that many other Member States are also facing sizeable disallowances and the position on this has become clearer since last I addressed the Assembly on the matter. The latest Commission announcement on disallowance confirmed that in total €215 million will be recovered across a number of Member states including Sweden, Spain, Italy and the south of Ireland. It is clear that while the Commission raised concerns here, they have also identified shortcomings across many other Member States, including in regard to mapping and inspection controls. It is important, therefore, that paying agencies seek to learn from each other in improving our systems, even though the systems operated vary somewhat within these islands and across the European Union.

Update on the financial corrections imposed so far

6. When I spoke to you last November, I outlined the financial corrections that we expected and had accrued. I focussed on the area aids corrections as these constituted the largest sums of disallowance. There has been no significant change to these figures, but some confirmations of figures already proposed have been received.

7. In September this year, the Commission confirmed its position in relation to the area aids for 2007 and 2008 scheme years, and entitlements for 2008 and 2009 scheme years. I wrote to the Agriculture and Rural Development Committee about this at the time. As I indicated in my statement on 21 November last year, DARD has already accrued £33.18 million to meet this disallowance.
8. In regard to the 2009 scheme year, the Commission has accepted our assessment of the risk to the Fund for Single Farm Payment and has proposed disallowance of €17.69 million. We are waiting for this audit to clear all the processes and expect the Commission to confirm this amount in the coming months. Again the money to cover this has already been accrued.
9. Of course the potential for disallowance for other scheme years still exists. I want to turn now to the situation with regard to the 2010 and 2011 scheme years.
10. The Commission has written to the Department about the corrective actions we have taken in 2010 and 2011. Given that the Commission has accepted our assessment of the risk to the Fund for the Single Farm Payment scheme for 2009, we have undertaken risk assessments for both the 2010 and 2011 scheme years. Work on these is underway and we are confident that these will show that the risk to the Fund in these years is reduced. In addition, I expect that the changes we have introduced will enhance the Commission's confidence in our paying agency controls when considering these years and indeed into the future.
11. There are a number of other audits with smaller sums of money involved that are also outstanding. These are audits relating to cross compliance, pre 2005 bovine and ovine payments and rural development. These continue to progress through the Commission processes and we await final proposals from the Commission on all 3. Again these issues and the related provisions have already been discussed.

Court Case

12. Ensuring good compliance is an important component of the way forward and I will speak about that shortly. But we have also challenged Commission decisions, most notably in the case that the Department has taken to the European Court of Justice. There has been a significant development in this matter. The initial challenge in regard to the calculation of penalties in the 2006 scheme year has encountered problems in regard to the standing of the Department to take such a case. Members will recall that DEFRA was not prepared to take the case at that time.
13. I have now asked DEFRA to take a separate case on the decision in regard to the 2007 and 2008 scheme years
14. I am pleased to tell you that I have been successful in persuading the British Government to take this new case. This removes the difficult issue of standing and allows the Court to focus on the substantive issues of the case. The case has now been lodged with the European Court. This means that if the original case is ultimately ruled inadmissible on standing, this second case will still ensure the issue of the calculation of penalties is challenged. While this is good news, the outworking of this challenge is of course likely to take a number of years to work through the legal process.

Programme of Work

15. But of course in addition to challenge, I am also focussed on compliance. I have in place a comprehensive programme of work to address concerns raised by the Commission and this is already bearing fruit.

Inspections and Control with Remote Sensing

- 16 In looking at the on-the-spot inspections, my Department has enhanced the training and guidance to our inspectors through provision of improved guidance and more detailed protocols
- 17 The electronic system used to process inspection results has been further refined to deliver a more consistent and repeatable control and facilitate a more accurate flow of information from the claim, to the on-the-spot check through to payment.
- 18 With improved Management Information, managers are better equipped to manage and monitor the flow of inspection cases through the system.
- 19 Quality assurance measures have been integrated into inspection activities to maintain and improve the accuracy and quality of the process.
- 20 I recognise that the consequence of these improvements had a knock-on effect on the processing of many 2011 payments and created unacceptable delays in some payments. However, these enhancements have now enabled us to process more 2012 inspection cases than was the position at the same date in 2011.
- 21 In addition, as part of our ongoing work to improve control arrangements the Department has, this year, introduced Remote Sensing technology as a method of completing 250 On the Spot checks.
- 22 This technology allows inspection to be carried out using satellite imagery and will enable us to check claimed parcels remotely and provides the facility to compare the measured area parcel with the area declared on the Single Application Form.
- 23 In cases where it is not possible to fully interpret the agricultural parcel using the satellite image a rapid field visit will be performed by our inspection staff, to inspect those areas of discrepancy. The combination of remote sensing and rapid field visits has the potential to reduce the burden of on farm inspections on farm businesses in the future.
- 24 Also, this approach will help to ensure increased consistency and standardisation of on the spot checks, seen as a critical factor by the Commission when applying the scheme rules.
- 25 I intend to significantly increase the number of on the spot inspections carried out by remote sensing in 2013, because this has the potential to speed up the inspection process and payments in future years. I am reviewing the success of the process as deployed in 2012 and in the light of that will make a further announcement on this matter in coming months. I am determined that we use modern technology to accelerate payments to farmers at the earliest opportunity.

Legality and Regularity

- 26 Another action we took to address the auditors' concerns was to participate in an extremely demanding Legality and Regularity audit as set out in the Commission's Guideline. Under this, the NI Audit Office undertook an in depth examination of DARD's procedures and control framework in 2011. This involved repeating a large number of inspections in that year to see if they were correct.
- 27 The Audit Office submitted its Report to the Commission by the deadline of 1 September 2012. The Commission is currently considering the Report and although I am not in a position to announce the outcome of the audit at this stage, I can say that we intend to deploy the encouraging findings in further discussions with the Commission in coming weeks. This development does have the potential to lead to a reduced disallowance.
- 28 I am confident that by engaging in this audit the Department has demonstrated a confidence to put its control system to the test and that this, combined with a further audit of legality and regularity planned for the 2012 scheme year will provide further assurance to the Commission in respect of the corrective actions the Department has undertaken to improve controls.

LPIS Maps

- 29 I now want to turn to the issue of maps. The Commission was critical that our mapping system did not identify a Maximum Eligible Area, which is an assessment of the eligible land in a field that can be claimed for Single Farm Payment. A key objective of the mapping project that I have undertaken is to identify this area for each field.
- 30 The Department is about to issue maps with revised field boundaries to farmers to support them in the 2013 Single Application process. The maps will be issued in 3 batches, with the south east being the first to receive their maps. These should arrive with farmers in December and January starting with the south east, then the north and finally south west. This order of map production reflects the order in which the data was received from our data partners [Land & Property Services], given the very significant amount of work involved to have all data available and the desire to see maps provided as early as possible. These new maps will be much more detailed than previous maps. Boundaries will have been moved to where physical features such as hedges, walls or fences are present. So, for example, if no boundary was visible, fields will have been merged.
- 31 Given that the information contained in the maps will also be used to pre-populate the 2013 Single Application Form, it is essential that farmers look at their map early and report necessary changes to avoid potential delays in processing their claims. It is essential that farmers examine the information we send to them and report any changes necessary, as they, and they alone, know the current situation on the land.
- 32 If farmers come to us late with changes which need to be made, it cannot be guaranteed that these will be included in time on a new map or used to populate their Single Application Form. This in turn may delay the processing of their 2013 claims.

- 33 I can't stress enough how important it is that farmers follow the guidance we send out with the maps. As well as the guidance, staff will be available in DARD offices to assist. I know that many farmers find all the information they receive very bureaucratic, but if they ignore the advice we send them and claim more than the maximum eligible area, they could end up with penalties in 2013.
- 34 I am also investing in a new corporate Geographical Information System underpinning the maps to ensure that we have a better platform on which to build future maps and to improve the quality of information that we have as a Department for decision-making. One of the benefits for farmers of this investment should be better opportunities not just to look at their maps online, but, in the future, to make changes to them and send those changes to the Department for verification.
- 35 I am aware that many farmers and public representatives have an expectation that DARD's maps will be 100% accurate when they are issued. This is a mistaken expectation. As I have said before, this cannot be the case due to the changes which are happening on the ground on a daily basis and also because the photographs may not show up every feature clearly. Maps will only be correct once farmers have checked them against what they know to be the current situation on their farms. Members should be under no illusion as to the challenges involved in doing this work and should encourage co-operation from their constituents. It is only by working together that DARD and the farming community can both make and keep the maps fit for purpose. Farmers who currently share parts of a single field with other farmers will have a particular problem to resolve and they will need to contact their local office quickly to work out the best way forward.

Dual claims

- 36 One of the other criticisms of the Commission was that we allowed dual use claims, that is where different farmers use the same field to claim under different schemes. This is most common when one farmer claims a field for Single Farm Payment and another for Less Favoured Area Compensatory Allowances.
- 37 We have looked at ways to address the Commission concerns by introducing a new set of controls which would be in keeping with the Commission's stance that a legitimate dual use claim is technically possible but requires adequate controls.
- 38 We launched a consultation exercise setting out our preferred approach for managing these dual use claims in the short term. This consultation closed earlier this month. When the responses have been fully considered, I will decide on the best way forward.

Agri- environment

- 39 One of the issues that has arisen is the need to make sure that the controls applied to agri-environment schemes are improved. Disallowance was not restricted to Single Farm Payment, but was also applied to land-based schemes in the second pillar. It is therefore important that we ensure that the new maps are aligned with the schedules for the agri-environment schemes and work will commence on this as soon as the maps are available.

40 Members will be aware that I decided not to proceed with a third tranche of Countryside Management Scheme agreements. It is important in the light of experience of that scheme that the Department prepares itself for the early introduction of a new scheme that is attractive to farmers whilst at the same striking a balance between achieving real environmental outcomes and compliance. It is important for me to add that the Commission will look to see that we have in place a scheme that rewards farmers for being active on the land to achieve real outcomes for the environment.

E-SAF

41 I am determined to accelerate payment turnaround for farmers. But farmers themselves have a key role in this. One important way that I have already mentioned is to take care to claim correctly. Another is to make their Single Applications online. This year, over 8,000 applications were submitted online, which represents just over 21% of the total received for the 2012 Scheme year and an increase of over 2,000 compared to 2011. This is great progress and I hope it will continue because it can speed up payments to farmers overall. This year, because of the introduction of new maps, there may be some challenges for farmers who have to introduce new information to the Single Application Form online to ensure their claims are correct, but, despite this, I intend over coming years to continue to develop and promote online to facilitate more accurate and faster payments. When uptake is sufficient, then it will be possible to move to a mandatory arrangement, but I recognise that this may take time in the context of all the other changes that are ongoing.

2012 and 2013

42 I will be announcing the payment target for 2012 Single Farm Payment shortly. I know many farmers depend on getting their SFP early and in line with previous years, I hope to be able to pay at least 80% of all claims in December. Five times more inspection cases than last year will also be paid in December.

43 I changed our systems to start land eligibility inspections for the 2012 applications four weeks earlier this year than for the 2011 scheme year. This provided a longer window of opportunity to complete inspections before payment processing commences, increasing the potential to make timely payments for inspection cases. But it is important to manage expectations. The 2012 scheme year should be the final year when we have very large numbers of payments requiring re-calculation back to 2005. This cumbersome process remains for this year and will inevitably delay some payments. For example, when I sent farmers maps to inform their claims in 2012, these maps contained marked ineligible areas. A proportion of farmers claimed an area that appears to include some of this ineligible area or claimed fields that had not been claimed for some years, so it is necessary for us to carry out administrative checks on these to make sure that the Department is protecting the Fund. This means that some non-inspection cases may therefore take longer to process this year. In many cases, the farmer wrote to explain why the claim was for more than the eligible area, but in many other cases they did not. These are the cases that are likely to take longest to complete and may run into the early months of 2013 before a payment can be made. This illustrates the importance once again of farmers engaging with their maps and sorting out problems in advance.

- 44 That brings me to 2013 and it important for me to say that 2013 is not going to be an easy year either for DARD or for farmers. The new maps that we are issuing will have a significant impact on the 2013 Single Application process. We are anticipating that around 70% of fields will have some change affecting their area. This will mean changes to the area the farmer can claim.
- 45 Because of the significant number of changes to fields, we will not be able to pre-print the 2012 claim information on the SAF the way we usually do and farmers will need to take great care when completing their 2013 claims to make sure they get these right. We are actively looking at ways to minimise the impact this will have on farmers and we are also reviewing the advice we give to farmers. I appreciate that sometimes this may be complicated and I would emphasise that if farmers do not understand what they need to do, they need to ask for help - from my Department from agents such as form fillers or the farming unions.
- 46 The more accurate claims are when they are submitted, the fewer queries and problems arise and this in turn should help speed up payment processing. I want to try to ensure that payment targets in 2013 are at least comparable to this year, but I need farmers to help us achieve this.

Conclusion

- 47 So we have made many improvements to our processes, and these should help reduce the risk of disallowance in future. But in the short-term these inevitably mean that farmers must be pro-active in managing their claims – as the regulations require.
- 48 In finishing, I would like to re-iterate that if ever there was a year for farmers to check their maps carefully, this is that year. Farmers and elected representatives should not assume that the maps are correct. There are likely to be many areas where changes can only be identified by the farmer. We need to work in partnership to ensure that these maps, which will form the baseline going forward, are correct and continue to be corrected. Farmers must be pro-active and tell us about any changes in their fields.
- 49 In turn DARD must have a more stable and secure mapping platform to help make the transition from the current schemes to those that are being developed under CAP Reform.
- 50 Many farmers have already worked with us to this end and I am confident that in partnership we are close to success in tackling the current scale of disallowance that we have had to endure. I am confident that because we have together recognised and addressed the issues we will be able to show the Commission that we now have effective systems that are compliant with regulatory requirements.
- 51 Go raibh mile maith agaibh
(Thank you)