Common Agricultural Policy Futures programme

An update

AUDITOR GENERAL

Prepared by Audit Scotland
May 2016

Auditor General for Scotland

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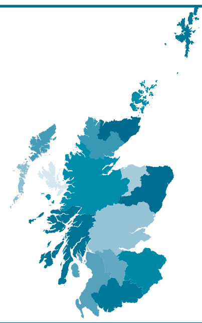
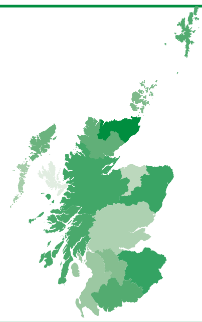
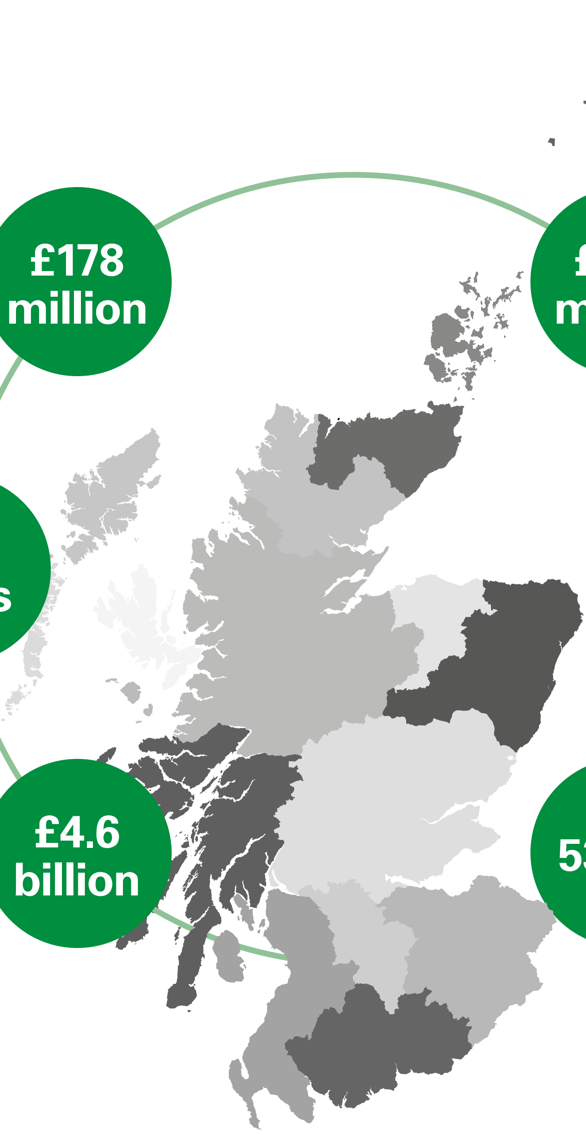


Exhibit data

When viewing this report online, you can access background data by clicking on the graph icon. The data file will open in a new window.

Key facts





£178 million
Estimated cost of the Scottish Government's CAP Futures programme

£688 million
Net income from farming in Scotland for 2014[1]

five years
It is a five-year IT and business change programme

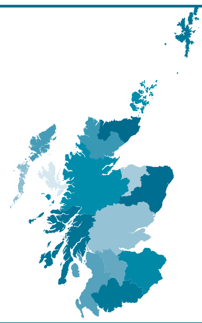
67,000
People employed in agriculture in Scotland

£4.6 billion
European and Scottish Government funding to be paid to farmers, crofters and rural businesses between 2015 and 2020 under EU Common Agricultural Policy reforms

53,000
Number of farms covering 5.5 million hectares of land in Scotland

Note: 1. *Agriculture Facts and Figures 2015*, Scottish Government, 2015.

Summary



Key messages

1 The Common Agricultural Policy Futures programme is a five-year business change and IT programme to deliver CAP reform. We reported in October 2014 and October 2015 highlighting the increased costs and ongoing risks of the programme. The Scottish Government is managing total programme costs within a budget of £178 million, of which £126 million has been spent to date. To stay within this budget, the Scottish Government has significantly reduced the scope of the programme and now aims only to deliver a system that is compliant with European Commission (EC) regulations, without all of the planned customer-focused enhancements and anticipated efficiencies. There is a risk that if the current level of spending is not reduced or system functionality improved, the programme could run out of money before a CAP-compliant system is in place. We do not expect the programme to deliver value for money.

2 The Scottish Government did not meet key milestones and ministerial targets for making payments to farmers. The system is working with payments starting in December 2015, but has made slow progress processing applications since. In March 2016, the Scottish Government's assessment was that making the required level of payments by the EC regulatory deadline of 30 June 2016 was at extreme risk. Farmers reported that the payment delays have had an adverse impact on cash flow with a knock-on effect on the rural economy. To help farmers receive payments more quickly, the Scottish Government established schemes to loan funds from the Scottish budget while claims are being processed. This introduces risk to the Scottish Government budget, including risk of duplicate or over-payments, and delays to other spending if the loans are not repaid when expected.

3 The new CAP delivers a complex range of reforms. The high-level framework is set by the EC, and the Scottish Government, in discussion with industry, designed national reforms and schemes within this. There is a significant risk that the Scottish Government will not deliver its aim to minimise financial penalties charged by the EC for non-compliance with regulations. The Scottish Government has not completed a detailed assessment of the risk of financial penalties to support decisions on prioritising scope. A range of financial penalties is possible, with a potential range between £40 million and £125 million, subject to an assessment of the specific circumstances by the EC.

we do not expect the programme to deliver value for money

4 Programme governance has not been effective. Significant decisions were made outwith programme governance structures; strategic decisions took too long; and senior roles and responsibilities overlapped and did not operate as intended. The programme team and IT division also did not work as one team, with a lack of trust and blame culture hindering effective progress. There has been little accountability in the programme for IT delivery leading to ineffective challenge and oversight. Management failed to deal effectively with conflicts of interest; actions were taken but these were inadequate and arrangements were not sufficient to ensure value for money.

Recommendations

In our previous report on Managing ICT contracts in central government in August 2012 and in an update to that report in June 2015, we made a series of recommendations on managing ICT programmes. These included:

- establishing effective governance and risk management arrangements and complying with them
- ensuring appropriate skills and understanding of relevant project management frameworks are in place
- developing robust performance management arrangements
- completing detailed skills assessments at the start of the programme
- clearly defining benefits at the start of a programme, and subsequent monitoring
- ensuring the programme has required contract and supplier management skills.

These recommendations continue to apply to this programme. We have found many common themes and weaknesses in the management of ICT programmes in the public sector in our audit work. We intend to produce a summary of these, drawing on the key messages and recommendations from all our recent reports on managing ICT programmes.

There are a number of actions that the Scottish Government should take now to improve and enhance delivery. It should:

- complete a detailed assessment of the risk of financial penalties for all the remaining elements of programme scope, to enable informed decisions on prioritisation if the remaining budget cannot cover all the elements required for CAP compliance
- ensure there are appropriate governance arrangements for all decisions made concerning the programme and payments to farmers
- develop a clear plan for the transfer of knowledge and expertise from the programme staff to staff in the business
- develop and test a disaster recovery solution covering the whole IT system.

Introduction

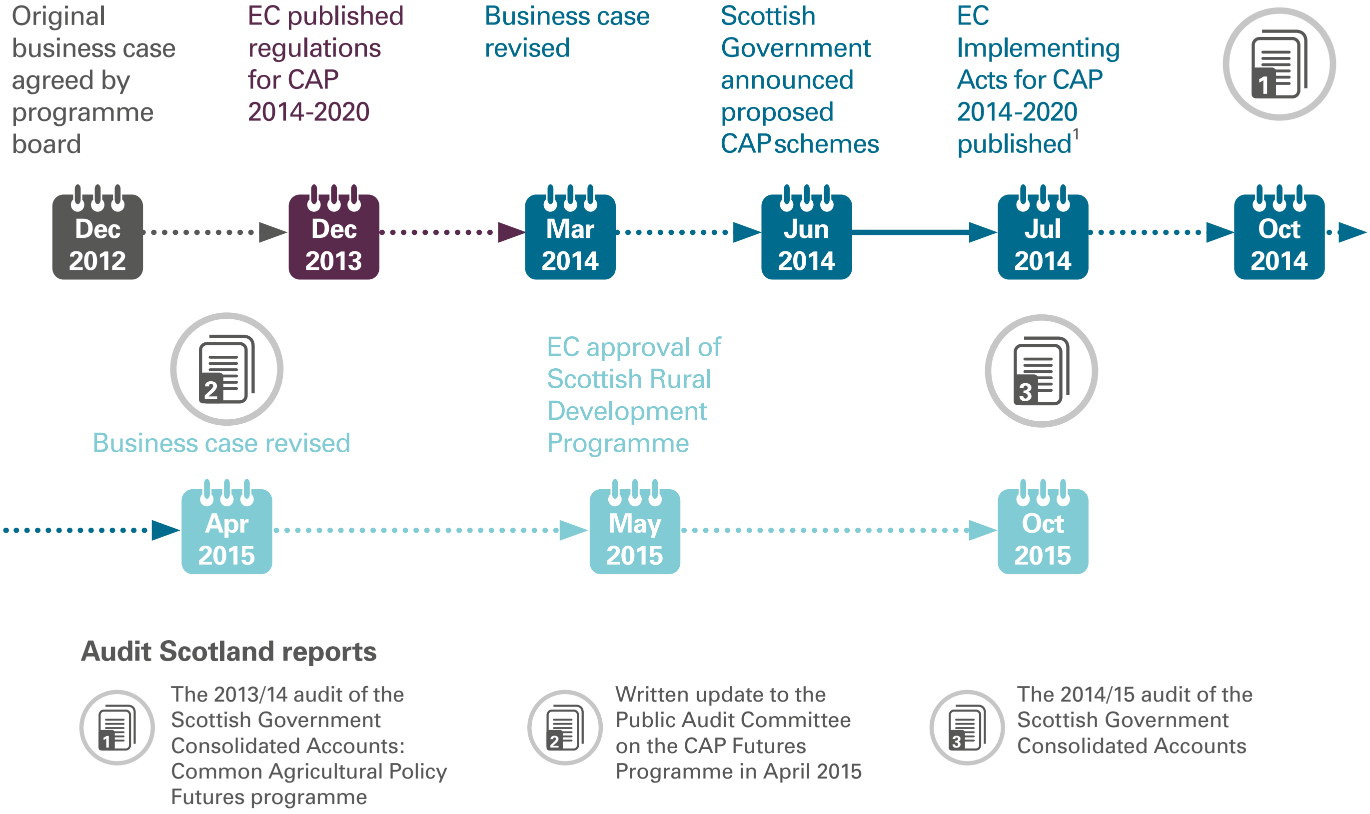
1. In 2012, the Scottish Government started a five-year programme to improve its business processes and IT systems to implement the European Union's Common Agricultural Policy (CAP) reforms from 2015 onwards. This is known as the CAP Futures programme. The main aims of the programme were to minimise financial penalties for non-compliance with EC regulations, enhancing the customer experience, and making processes more efficient.

2. The programme has faced significant difficulties from the start and in acknowledgement of this, the Scottish Government has included the programme on its risk register since February 2013. In October 2014, the Auditor General for Scotland reported under Section 22 (3) of the Public Finance and Accountability (Scotland) Act 2000 to the Scottish Parliament on costs and progress. Audit Scotland provided the Scottish Parliament Public Audit Committee with updates on the programme's progress in April 2015 and October 2015 highlighting the increased costs and ongoing risks.[1,2] Exhibit 1 shows the timeline for some of the key programme events.

Exhibit 1

Timeline of key events

There have been a number of key events during the CAP Futures programme. Audit Scotland has previously reported on the progress of the programme.



Note: 1. Member states are responsible for implementing EU directives and regulations. Implementing Acts ensure directives and regulations are applied consistently by member states.

Source: Scottish Government

Background

The Common Agricultural Policy provides financial support to farmers, crofters and rural businesses

3. The European Union's CAP began in 1962 and has been regularly updated and reformed since. The main aims of the CAP are to improve agricultural productivity so there is a stable supply of affordable food, and to ensure that farmers have a reliable income.

4. The CAP provides a system of financial support for farmers and rural businesses in Scotland under two funding 'pillars' (Exhibit 2, page 9):

- Pillar 1 provides direct payments and is fully funded by the European Union (EU).
- Pillar 2 provides funding for rural development through various schemes under the Scottish Rural Development Programme (SRDP). It is funded jointly by the EU and the Scottish Government.

5. The Scottish Government's Agriculture, Food and Rural Communities (AFRC) directorate is responsible for delivering the CAP in Scotland. The Rural Payments and Inspections Division (RPID) within AFRC makes payments to farmers and rural businesses of around £500 million each year on behalf of the EU.

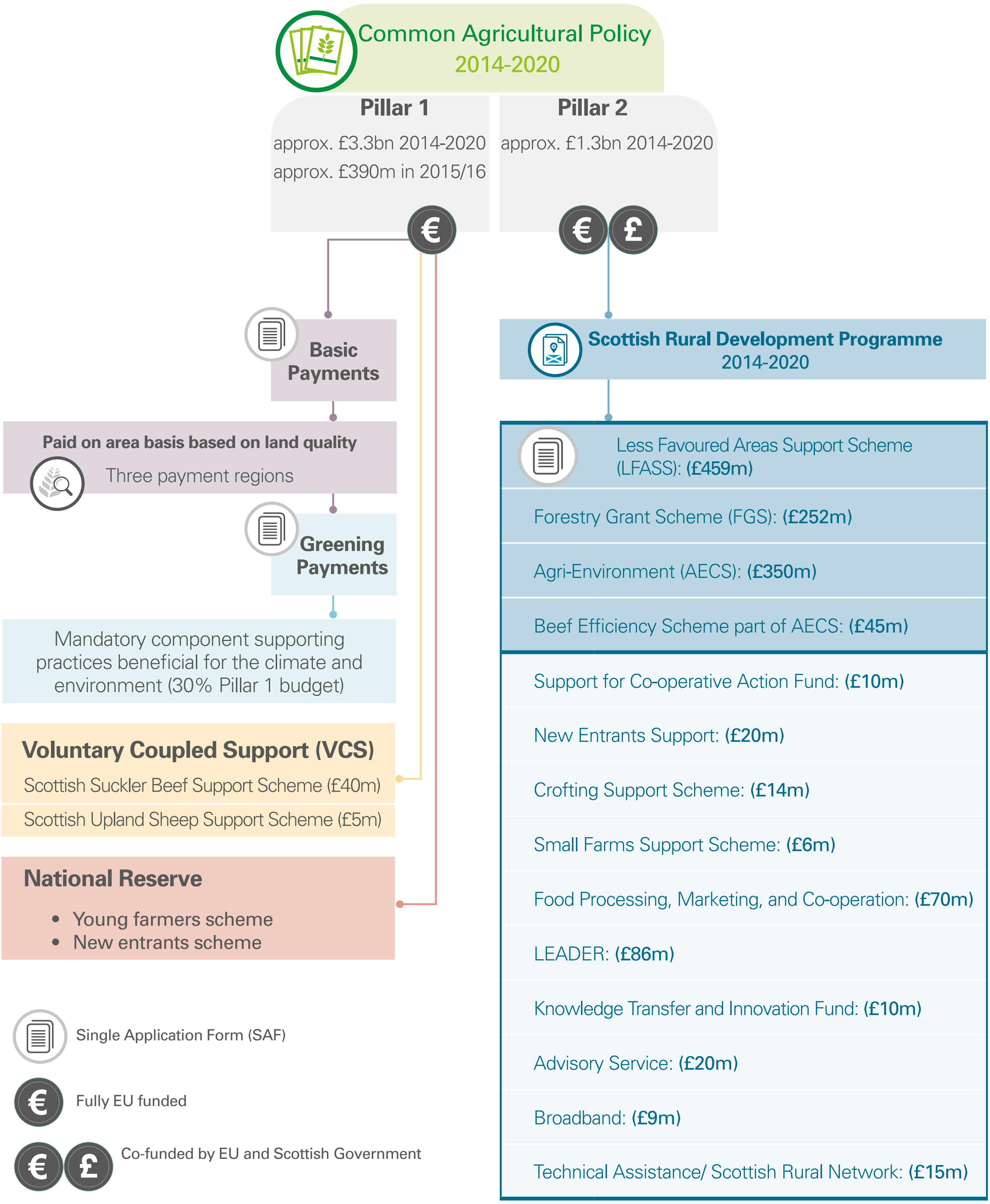
6. The EU reforms the CAP about every seven years. The current regulations started in 2014 and are expected to last until 2020. Around £3.3 billion will be paid in direct payments (pillar 1) to farmers and crofters, and around £1.3 billion will be paid through the SRDP (pillar 2) during this period (Exhibit 2, page 9). The new CAP introduces complex change in reforms. For example, there were two types of direct payment under the previous CAP, with the Single Farm Payment (SFP) being the main one. Under the new CAP, as implemented in Scotland, there are more types of direct payment, including:

- The Basic Payment Scheme (BPS) – the main rural grant paid by the EU to supplement the income of farmers and crofters who actively farm land.
- Greening payments – introduced by the EU to improve the environmental performance of farming. Thirty per cent of the direct payments budget is allocated to this.
- National Reserve – introduced to help new and young farmers who do not automatically qualify for BPS.

7. The Scottish Government also had to change from making support payments to farmers based on historic levels to payments based on the area and type of farmland.

8. The high-level policy is set at European level but, in recognition of the diversity of rural economies within the EU, each member state is responsible for deciding how the CAP is applied within its own territory. The Scottish Government was responsible for designing the detailed schemes to be applied in Scotland. Consultation and negotiation with the agricultural industry in Scotland led to some significant changes, for example the introduction of a third regional classification for land and the introduction of a different type of direct payment, the Voluntary Coupled Support (VCS) to assist beef and sheep farmers.

Exhibit 2
The Common Agricultural Policy in Scotland
The Scottish Government distributes European Union CAP funding under two pillars.



Source: Audit Scotland

9. The Scottish Government notified the EC of its proposed CAP schemes in August 2014 in line with EC requirements. The Scottish Rural Development Programme (pillar 2) was approved by the EC in May 2015, 29 months after the original business case for the Futures programme was approved (Exhibit 1, page 7).

10. The EC can charge financial penalties, known as disallowance, if it considers that there are weaknesses in the checking and administration of CAP payments. Examples are, failing to make the required value of payments within set timescales, if regulations are misinterpreted, or if the EC identifies control weaknesses that are thought to be a risk to EU funds. The effect of this is to reduce the total amount of EU funding paid. Most European member states incur some disallowance, and as at March 2016 the Scottish Government had incurred around 69 million euros (around £51 million) in disallowance for a number of failures in the previous CAP. This represents one per cent of the total CAP payments made in Scotland between 2006 and 2013.

The Futures programme is a Scottish Government business change and IT programme to deliver the CAP 2014 reforms

11. The Scottish Government established the Futures programme to deliver the CAP reforms for Scotland. In December 2012, the original business case for the programme set out the rationale for change:

- EC regulations require the Scottish Government, as a paying agency, to use an IT system rather than rely on manual controls to process, assess, and validate claims. The existing IT infrastructure had been in place since the 1990s and could not deliver the new CAP, so an updated system was required.

- The Scottish Government wanted to minimise the amount of disallowance under the new CAP to make financial savings for the Scottish Budget.

- The Scottish Government also recognised that the CAP reforms provided an opportunity to improve business processes and to deliver a better and more efficient system for farmers, crofters and rural businesses. It wanted to be more customer-focused.

12. Based on the original business case, the Scottish Government appointed CGI to deliver the IT system following a competitive tendering exercise within the Scottish public sector procurement framework. The programme decided to take a partnership approach to contracting. This meant that the contract value was not fixed but would be determined as the details of the EC regulations, and therefore full system requirements, became known.

13. The Scottish Government has revised the business case over time to reflect the latest requirements and cost estimates. There have been two main business case revisions:

- December 2012 – original business case approved. Total cost of £102 million.

- March 2014 – revised business case. Total cost of £128 million.

- April 2015 – major revision to business case. Total cost of £178 million.

14. The rationale for change and aims of the programme remained constant throughout the business case revisions. The full scope and costs of the programme were developed as the EC regulations were confirmed and the Scottish Government's pillar 1 and 2 schemes were agreed with the farming industry and the EC.

About this report

15. This report assesses the progress of the programme since we last reported up to April 2016. Part 1 focuses on what has happened to date. Part 2 looks at what has caused some of the problems that the programme has faced.

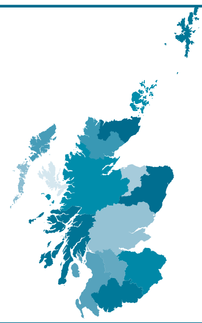
16. Work is ongoing to deliver the programme and critical milestones still need to be met. Our report reviews the challenges that the Scottish Government has faced and assesses the actions it has taken. It highlights the current and continuing risks to programme delivery.

17. Our findings are based on a review of documents, supplemented by discussions with relevant civil servants and CGI. We also invited written submissions from external stakeholders (National Farmers Union Scotland and the Scotland's Rural College), and from Scottish Natural Heritage and the Forestry Commission Scotland who help the Scottish Government deliver some CAP schemes.

18. We have focused on how the Scottish Government has overseen and managed the overall programme. We have not directly assessed the performance of the IT delivery partner. We will continue to monitor this programme's progress and will report to the Scottish Parliament's Public Audit Committee as appropriate.

Part 1

Progress



Key messages

1. The programme has not met key milestones and ministerial targets for making basic payments. The system is working and payments started in December 2015, but there are significant defects with the system and it is making slow progress processing applications. The Scottish Government's assessment at March 2016 was that there is an extreme risk that it will not make all the required payments by the EC deadline of 30 June 2016.

2. To help farmers receive payments more quickly, the Scottish Government announced in March 2016 that it would use the Scottish Government budget to make loans to farmers while their claims are being processed. This introduces risk to the Scottish Government budget including risk of duplicate or over-payments and risk of delays to other spending if the loans are not repaid when expected. The Scottish Government needs to manage the new schemes as it continues to process claims, increasing the risk of processing and payment delays.

3. The Scottish Government is managing the programme within a budget of £178 million and the programme will end when the budget is fully used. The Scottish Government has reduced the scope of the programme to fit within this budget. This means that the programme now aims only to deliver a system that is compliant with CAP regulations, without all of the planned customer-focused enhancements and anticipated efficiencies. As at March 2016 the programme was spending £4 million a month. If this level of spending is not reduced or system functionality improved, the programme could run out of money before a CAP-compliant system is in place. This increases the risk of financial penalties.

4. We do not expect the programme to deliver value for money. The cost of £178 million is 74 per cent more than the original business case, and the programme will not fully deliver the anticipated benefits. Farmers reported they have been adversely affected by the programme delays, highlighting cash flow problems that have knock-on effects for the wider rural economy.

5. There is a high risk that the programme will not deliver its aim to minimise financial penalties, which are levied by the EC for not complying with regulations. The Scottish Government has not undertaken a detailed assessment of the risk of financial penalties

the programme will not deliver the full value of anticipated benefits to inform decisions on prioritising scope, or to support analysis of estimated benefits. A range of financial penalties is possible, and our estimate of a potential range is between £40 million and £125 million, subject to an assessment of the specific circumstances by the EC.

The programme has experienced significant delays

The programme has been working to a number of milestones and deadlines

19. All farmers are required to register with the new system if they intend to apply for any form of support. The programme plan scheduled the start of registration during December 2014 for claims to be submitted from March 2015.

20. All farmers who wanted to apply for direct payment (pillar 1) support had to fill out a single application form (SAF) on the rural payments system. The EC requires applications to open from mid March each year (Exhibit 3, page 14). The application period is usually two months to mid-May, and all farmers must submit their application form by this date or they will not receive full payment.

21. The system must then process and check all applications to ensure they meet EC conditions and rules. As part of this process a sample of farms are selected for inspection, where the application information is physically verified by Scottish Government staff. Once inspections are completed and recorded on the system, a final letter of entitlement is sent to each farmer setting out the amount of eligible land and value of payment. EC regulations require all letters to be sent out by 1 April each year.

22. The Scottish Government usually starts to make payments to farmers at the start of December, with the majority of payments made by the end of December. Under EC regulations 95.25 per cent of direct payments (pillar 1) must be paid by 30 June 2016.

23. There are a number of other schemes designed to help different groups of farmers and other rural businesses, and each has its own timeline and deadlines. Five of the other main pillar 1 and 2 schemes are outlined in Exhibit 4 (page 15).

Ministerial targets for payments were not met

24. The system opened for registration in December 2014, as planned. On 16 March 2015 the system opened for applications in line with the timetable required by the EC. Around 19,000 farmers used the rural payments system SAF to apply for basic payments and other CAP schemes (Greening payments, Less Favoured Area Support Scheme, and two legacy schemes: Land Managers' Options, and Rural Priorities). Sixty-five per cent of applications were received online, similar to the previous year when 62 per cent of applications were online. All paper forms received by the June deadline were entered manually onto the system by the middle of July.

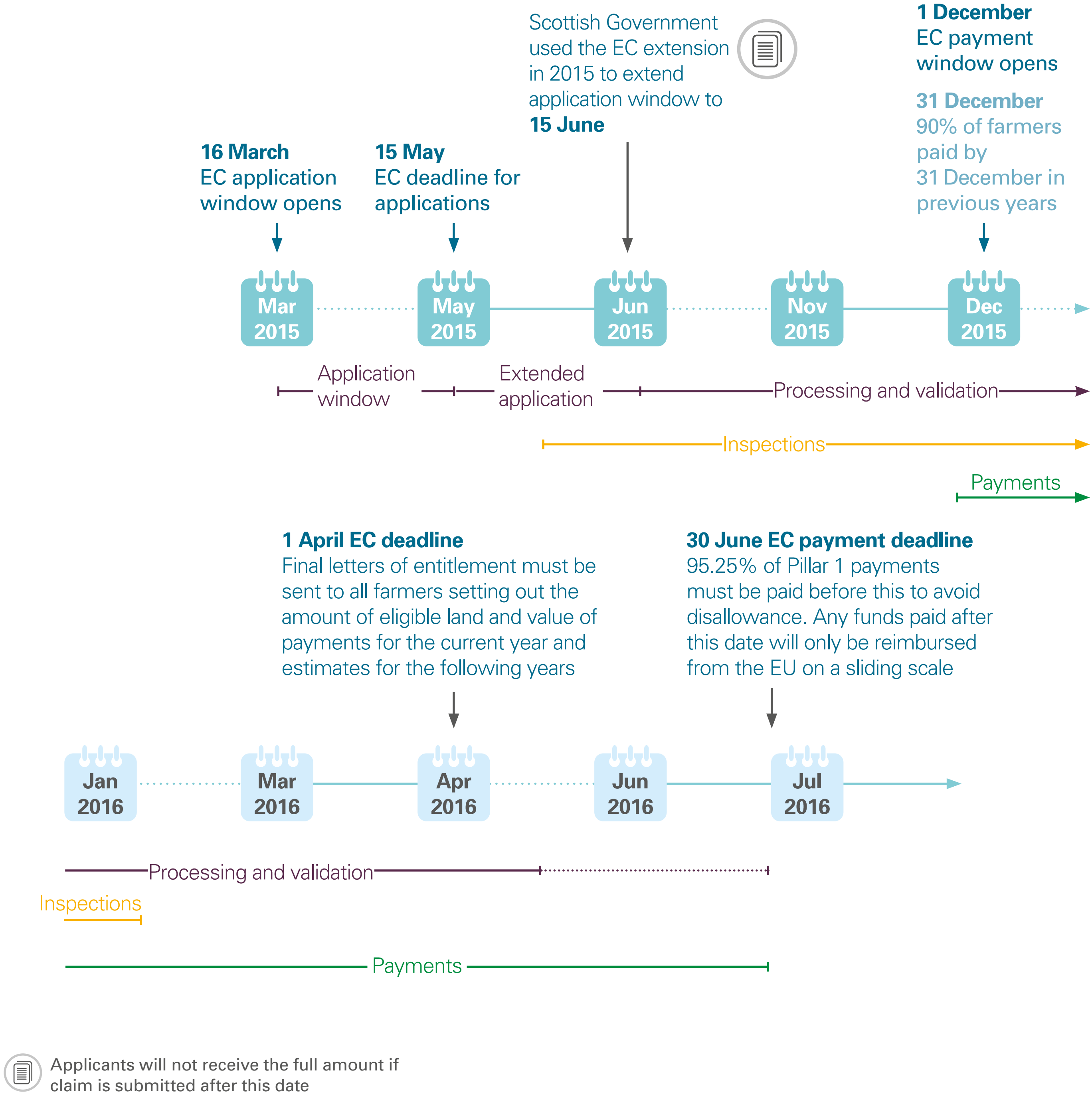
25. During this time, and in the period since, there were a number of problems with the performance and development of the system including:

- The system opened on time for applications but, for the first six weeks, was slow and did not function as efficiently as users needed. Errors in the IT infrastructure and software had to be fixed during the application period.

Exhibit 3

Timeline for the basic payments

There are a number of EC deadlines for making basic payments.

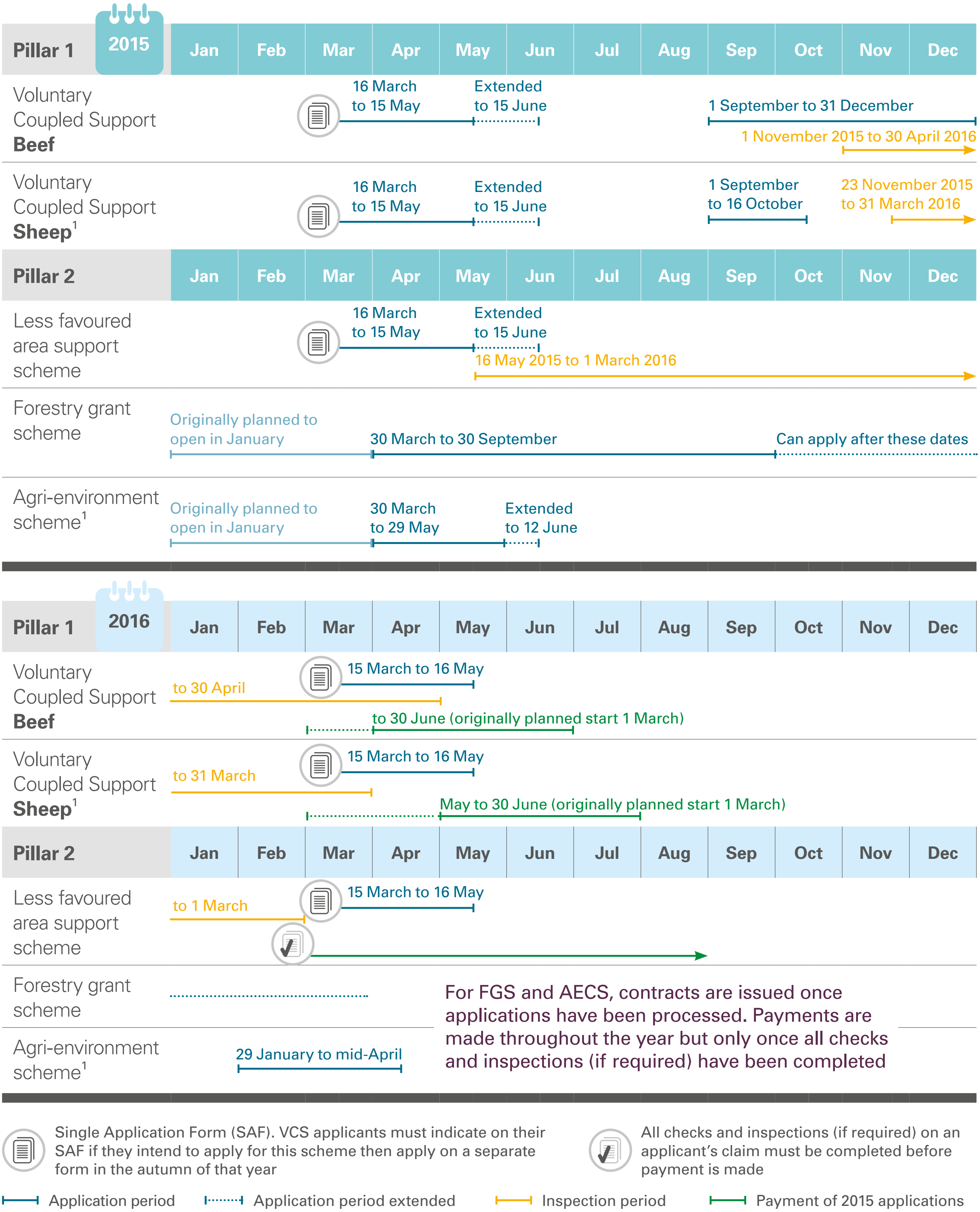


Source: Audit Scotland

Exhibit 4

Timeline for some of the other main schemes currently being delivered

Key dates for applications, inspections and payments for each.



Note: 1. New scheme

Source: Audit Scotland

- Software to process and validate applications was still being developed when the application period closed. This software continues to be in development to date.
- Manual workarounds had to be put in place to select the required 1,300 farm inspections because the software was not ready in time. In addition, software to process and record the results from the inspections had to be significantly redesigned. This delayed the completion of farm inspections which in turn delayed when payments to these farmers could begin.

26. During the spring of 2015, recognising the complexity of the new requirements and that the rural payments system was not operating as planned, the programme team assessed different options and timescales for making payments to farmers. The Cabinet Secretary for Rural Affairs, Food and Environment announced on 18 June 2015 that the Scottish Government was aiming to make payments by the end of the year, but could not guarantee the timescale. To help meet this, the Scottish Government was looking at whether there was flexibility within the EC regulations to pay farmers in instalments.

27. In November 2015, the Cabinet Secretary announced a revised payment plan and set additional targets for the first year of the new CAP:

- Payments would be made in two stages, with the initial payment being worth 70 per cent of the total value of each farmer's basic payment.
- About 25 per cent of farmers were to be paid by the end of December 2015, with the majority of farmers to receive their initial payment by the end of January 2016.
- The balance of all payments was to be paid by the end of April 2016.

28. Payments started on 29 December 2015 but ministerial targets have not been met. Exhibit 5 shows the performance against ministerial targets since December 2015.

Exhibit 5
Basic payments made from 29 December 2015 to 29 April 2016

Ministerial target	Actual performance
25 per cent of farmers to be paid by end December	20 per cent – 3,579 farmers. £33 million
Majority of farmers to receive initial payment by end January	29 per cent – 5,328 farmers. £47 million
The balance of all payments paid by 30 April 2016	77 per cent – 13,915 farmers. £171 million (as at 29 April 2016). No farmers had been fully paid at this point

Source: Scottish Government

29. Continuing delays in developing the parts of the system to process and validate claims and inspection results has meant that all letters to finalise and confirm each farmer's land area (entitlement) will not be sent out until the end of May 2016. Farmers cannot receive final payments until the final entitlements have been confirmed.

The application period for 2016 opened on time

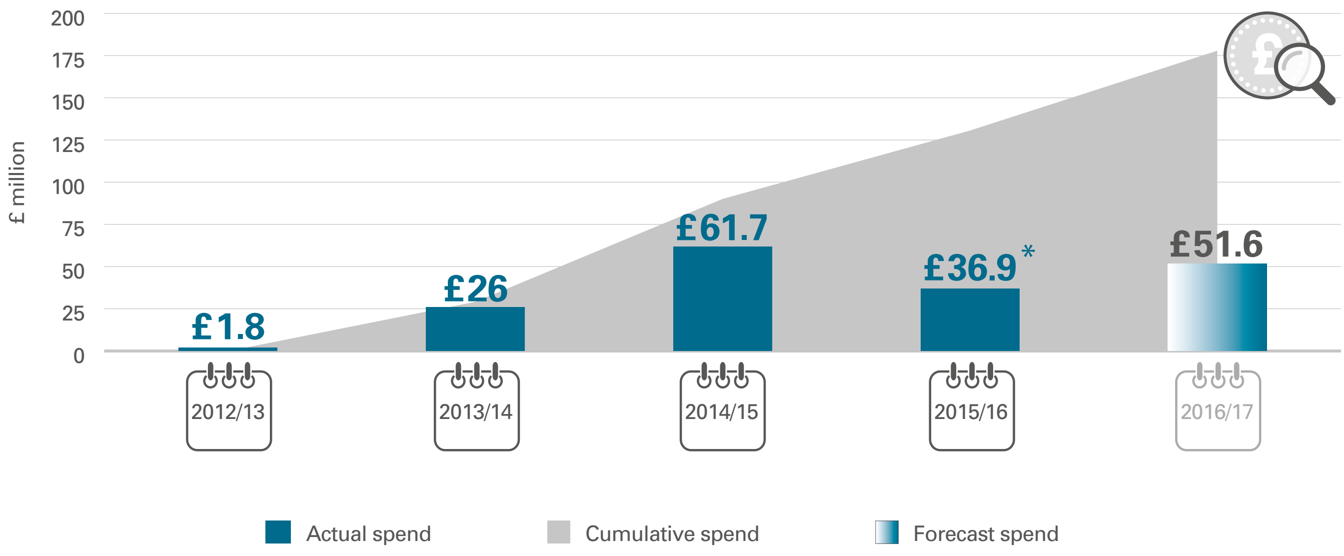
30. The 2016 SAF application period opened on time on 15 March. By 29 April 2016, 3,486 applications had been submitted online with 4,990 in draft on the system; 861 paper application forms had been received at this point. There were no significant issues reported with the performance of the system as at the end of April 2016.

31. The Scottish Government made some changes to the IT infrastructure to ensure that the system had the capacity to deal with a large volume of users at one time. The majority of applications are normally made in the final week of the application period.

The programme has spent £126 million to 31 March 2016

32. As at 31 March 2016, the programme had spent £126 million with expenditure in 2015/16 of £36.9 million. Exhibit 6 shows actual spending for the first four years of the programme, and forecast spending 2016/17.

Exhibit 6
Actual and forecast spending per year of the programme



Notes: * Figure subject to audit as part of the 2015/16 Scottish Government consolidated accounts.
Actual figures for 2012/13 and 2013/14 are £0.6 million and £0.8 million less, respectively, than those previously reported in our *The 2013/14 audit of the Scottish Government Consolidated Accounts: Common Agricultural Policy Futures programme* report. Previous figures included non-programme staff costs for AFRC, SNH and FCS.

Source: Scottish Government

33. After a successful appeal by the Scottish Government the programme received a VAT rebate in 2015/16 of £9.1 million for VAT incorrectly charged on some contractor costs in previous years. It is a one-off saving, and has been used to reduce spending in 2015/16.

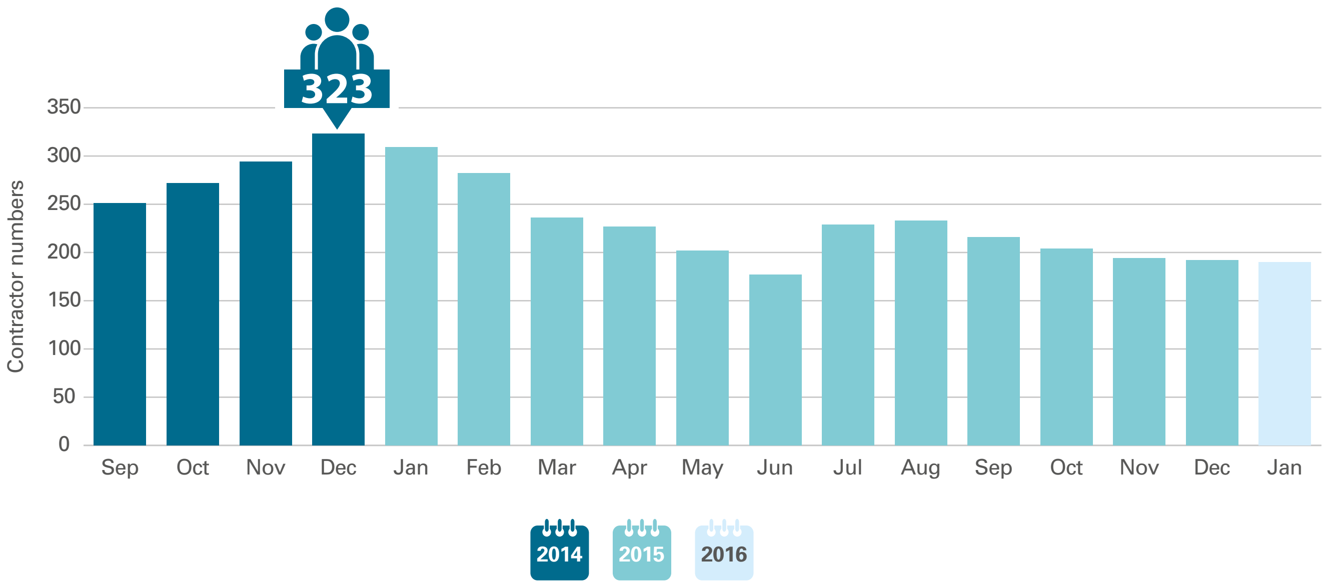
IT delivery costs have increased by £79 million since the original business case

34. The main area of spending is on IT delivery (73 per cent of total programme costs). This includes money paid to CGI to write the software to create the rural payments system and for hardware. The Scottish Government significantly underestimated how much it would cost to deliver the required IT system from the start of the programme. The original business case estimated IT delivery costs of £50 million (including VAT). This increased by 38 per cent to £80 million in the revised business case in March 2014, and further increased to £129 million in the April 2015 business case. The Scottish Government attributes the increased costs to delivering to short timescales and not knowing the full extent of the EC regulations at the start of the programme.

35. Most IT costs are for CGI staff including IT contractors. The programme has employed a high number of contractors, peaking at 323 in December 2014 (Exhibit 7). CGI uses subcontractors as well as its own staff to provide the IT skills required for the programme.

Exhibit 7
Contractor numbers

Total number of contractors working on the programme.



Source: Scottish Government

36. The other main areas of programme costs include the programme team and supporting staff, system support and maintenance, and development of customer and staff guidance.

The scope of the programme has been significantly reduced

37. In April 2015, the revised business case set out two options for the programme. It could deliver a CAP-compliant system for £158 million, or CAP-compliance plus some of the business and customer enhancements for £178 million. At that time the Scottish Government chose the second option of enhanced scope for £178 million.

38. Between December 2015 and January 2016, the programme team again reassessed what could be delivered within the remaining budget. At that point £46.8 million of the £178 million budget remained, with £31.1 million already committed:

- £22.5 million – estimated spending to the beginning of September 2016 to deliver all pillar 1 payments, and processing of all applications received in 2016.
- £6 million – estimated fixed price for a new land-mapping IT system.
- £2.6 million – estimated remaining cost for a new customer management and payment system.

39. This assessment reduced the scope of the programme further. The Scottish Government's aim over the remaining life of the programme is now to deliver a system to the minimum possible level to comply with EC regulations. A technical stocktake of the rural payments system is under way to confirm what parts of it are fully working and what parts require further development. The results of this will determine what has to be delivered within the remaining available budget of £15.7 million.

40. All other functions to integrate the remaining pillar 2 schemes with the rural payments system, improve business processes including electronic records management, and improve customer and user experiences through enhanced reporting and functionality, have been removed from the scope. The Scottish Government plans to deliver this functionality through a continuing directorate business improvement plan, but this will require further budget allocation and approval in future years. The Scottish Government has not yet assessed the potential cost or timing of these plans.

41. Due to these changes, the programme will deliver less scope than the enhanced business case option from April 2015 but at the same cost.

The Scottish Government is managing programme costs within the £178 million budget

42. The Scottish Government is managing programme costs within the £178 million estimated in the latest business case. The programme currently spends around £4 million each month. If this level of spending is not reduced the programme could run out of money by November 2016, before the planned end of the programme in March 2017.

43. A number of critical functions remain to be bought or developed (paragraph 38). If other parts of the programme are delayed or need significant re-development then it may not be possible to deliver these functions within the remaining budget.

44. The Scottish Government is trying to maximise the benefits achieved from the £178 million programme budget. In January 2016, the programme team reviewed all costs to see where reductions could be made. Actions taken include renegotiating contractor rates to reduce daily rates, and assessing whether all costs charged to the programme were in respect of programme activity or wider Scottish Government business. Around £2.3 million of programme costs were reallocated to other Scottish Government AFRC budgets as they were assessed as business-as-usual activities.

The Scottish Government has made a number of decisions affecting progress

The Scottish Government decided to extend the application period by one month

45. As it was the first year of a new CAP, the EC offered member states the opportunity to extend the application period for one month, from May to June 2015, to help maximise the number of farmers applying. Given the system difficulties and the number of changes being introduced, the Scottish Government decided to take advantage of this, extending the application period to 15 June 2015 (Exhibit 3, page 14). This gave farmers additional time to apply online to ensure they did not lose out financially.

46. The decision affected the timelines for the rest of the programme. The next stage of the process to check applications could not start until the application period closed. This shortened the time available to process and validate claims as the intended date to start payments in December did not change.

Due to programme delays the Scottish Government decided to make partial payments to farmers

47. From the close of the application period, programme monitoring reports consistently showed that meeting the target to pay farmers in December 2015 was not achievable.

48. The Scottish Government considered two options: to wait until the system was ready and delay full payment until March 2016; or to make two payments to farmers, starting in December 2015. Scottish ministers decided to make the payments in two stages.

49. The Scottish Government started processing the less complex claims first. These claims were less likely to be affected by system issues as there is less data to be validated; this meant that the Scottish Government could process as many claims as possible by the targets set by the minister (paragraph 27). Less complex claims include:

- claims where no other schemes had been applied for
- claims with less land, and fewer types of land
- claims where farms were not selected for inspection.

The Scottish Government budget is being used to pay farmers quicker

50. As the targets set by ministers were not being met, and progress with making payments was slow, the Scottish Government assessed options to help farmers with cash flow problems.

51. The Scottish Government announced a £20 million cash flow loan scheme on 12 February 2016. This was an interest-free loan for farmers who had not yet received a first instalment for basic payments and who could not get a loan from their own bank. The maximum loan available is the lesser of £20,000 or 60 per cent of a farmer's estimated total payment due. Once the farmer's basic payment is authorised the amount loaned will be deducted from this, and the remaining amount paid. As at 29 April 2016, fifteen farmers have been loaned around £132,000 through the cash flow scheme.

52. On 8 March 2016, the Scottish Government announced it would use £200 million of funds from the Scottish Government budget to ensure that farmers received some money more quickly. Under the scheme, farmers who had not received their first payment by the end of March 2016 would receive a cash loan worth 80 per cent of their basic payment claim. As at 29 April 2016, 5,119 loans worth around £91 million had been made. Once their claim has been processed by the system, the farmers will receive their basic payment less the amount loaned to them.

53. This arrangement is in addition to an earlier announcement, on 3 March 2015, where about £55 million of Scottish Government budget was made available to pay farmers who had applied for the pillar 2 Less Favoured Area Support Scheme (LFASS). This would work in the same way as the scheme for basic payments, with cash loaned to the farmer from national funds deducted from the LFASS payment. This decision was taken to ensure farmers received payments in March in line with previous years. As at 29 April 2016, 11,028 loans totalling £54 million had been made.

54. Loans for these three schemes are being made from the financial transactions fund, which is part of the Scottish Government's budget allocated to support loan schemes which go beyond the public sector, for example the 'Help to buy' housing scheme.

The programme delays have serious implications

The programme will not deliver the full range of planned benefits

55. The programme's original aim was to deliver a system that met all EC requirements, but also delivered wider business change. The vision was for the system to be more customer-focused, enhancing the customer experience by making processes easier and more efficient for farmers, crofters and rural businesses.

56. The benefits set out at the start of the programme will not be delivered in full owing to delays in delivery and the need to re-scope the programme. Each month the programme team assess the risk to the delivery of the intended benefits. In February 2016, 12 out of the 14 of the identified benefits were assessed as being at risk (Exhibit 8, page 22). There has been no formal reassessment of the benefits since the significant reduction in scope in January 2016.

There is a high risk that the programme will not achieve its aim to minimise disallowance

57. The largest financial benefit included with the business case is to avoid financial penalties, known as disallowance, for not complying with EC regulations. Any disallowance must be paid directly from the Scottish Government budget. The main causes of disallowance include:

- Failure to make payments to farmers, crofters and rural businesses within the required payment window. 95.25 per cent of pillar 1 payments need to be made by the end of June each year. In March 2016, the Scottish Government's assessment was that meeting this target was at extreme risk. If this target is not met the EU will not reimburse the Scottish Government with the full amount it has paid to farmers. The level of disallowance follows a sliding scale, starting at 10 per cent of payments made during July and rising to 100 per cent of payments made later than 31 October 2016. For example, if £40 million of pillar 1 funds were paid in July 2016 only £36 million would be reimbursed to the Scottish Government by the EU.

Exhibit 8
Scottish Government's risk assessment of the delivery of planned benefits, February 2016

Financial		Rating
1	Reduce the level of spend on existing IT systems and contracts	
2	Reduction in costs associated with land mapping. Move to a new Field Inspection System (FIS) team structure	
3	Reduction in the IT infrastructure and power consumption costs	
4	Avoidance of audit response activity by having better systems and controls in place	
5	Avoiding CAP disallowance in each year of programme	
6	EU anticipates that administration costs will increase. The Scottish Government aims to reduce the anticipated CAP 2015 operating cost increase	
7	Customers maintaining data online (linked to number 6)	
Non-financial		
8	Reduce time taken for inspections	
9	Reduce time to process CAP claims (excluding inspections)	
10	Reduction in time needed to identify, record, and initiate recoveries (contributes to benefit 6)	
11	Protect and enhance Rural Payment and Inspections Division's (RPID) reputation and that of Delivery Partners	
12	Improve levels of customer satisfaction	
13	Improve levels of staff engagement	
14	Better guidance for staff and customers. Making it clearer, consistent and more accessible	

One or more key milestones will not be delivered and no agreed recovery plan is in place

Detailed plan in place and one or more key milestones will not be delivered to plan. An approved action plan is in place

Detailed plan in place and one or more milestones unlikely to be delivered to plan

Detailed plan in place and all milestones on track to be delivered

Source: Scottish Government

- Errors in the calculated land entitlements held for a claim and late issue of final entitlement letter. This would delay final payments and could contribute to missing the end of June deadline.

- Failure of cross-compliance and system checks, for example the manual and system controls for inspections not meeting required targets. The level of disallowance is determined by audit findings.[3] The range of disallowance is difficult to estimate but could be between two and 25 per cent of pillar 1 and 2 funds, about £10 million and £125 million.[4]

- Failure to have a land-mapping system with accurate and up-to-date information on the areas of land held by claimants. This could mean a disallowance of about five per cent of pillar 1 and 2 funds, about £25 million.

58. The risk of disallowance is difficult to estimate with certainty. EC regulations set an indicative range of disallowance depending on the type of failure which is assessed by auditors. Paying agencies can also negotiate a reduction in disallowance by providing additional evidence to the EC.

59. One of the main aims of the programme was to minimise the risk of disallowance, but some of the decisions taken by the Scottish Government have increased the risk of not meeting the necessary EC regulations, and increased the risk of disallowance:

- Making payments to farmers in two stages increases the risk of processing and payment errors.
- Using more manual workarounds than originally planned increases the risk of payment error. For example, manual systems had to be in place to select and record inspection results, and to make some VCS payments.
- Prioritising the basic payment scheme may cause the late payment of other pillar 1 schemes resulting in further penalties. The value of other pillar 1 schemes is about £50 million.
- Delays in processing and validating claims and inspections meant the deadline of 1 April 2016 for sending out final entitlement letters to farmers and crofters was missed. This has also delayed the preparation and completion of EC reporting requirements, known as Eurostats. The deadline for submission of this information to the UK is 30 June 2016, with the EU requiring the information by 15 July 2016.

60. As we have noted in paragraphs 50 to 54, the Scottish Government is using its budget to lend cash to farmers in advance of receiving their basic or LFASS payment. The Scottish Government assessed these schemes against EC regulations and guidance and has structured the loan schemes so that they are separate to the CAP payments to mitigate the risk that they are subject to EC regulations. This includes writing to farmers to explain that the payments are not CAP payments but are loans from the Scottish Government budget. There remains potential that the EC will judge these payments as CAP payments and therefore subject to the CAP regulations.

61. When reassessing the scope of the programme in January 2016 the Scottish Government used a simple assessment of which parts of the programme were essential to be CAP compliant (paragraph 39). It did not perform a detailed assessment of the risk of disallowance to inform this decision and this assessment has not yet been done.

62. There is no limit on the amount of disallowance that can be levied, with the full amount of EC funds at risk in extreme cases. The legislation includes the potential for the loss of paying agency status where the EC feels it cannot rely on the Scottish Government's systems and controls. This would mean the Scottish Government having to make alternative arrangements for paying EU funding to farmers, crofters and rural businesses in Scotland.

Farmers, crofters and rural businesses have been adversely affected by the delays

63. In the past, the majority of farmers have received payments in December each year. The National Farmers Union Scotland (NFUS) reported that failure to make payments in December 2015 caused cash flow problems for the rural economy. Many farmers were already experiencing financial difficulties caused by low milk prices and severe flooding.

64. Farmers were not informed early enough when they could expect their first and second payments. This made it difficult to plan ahead. In February 2016, the NFUS reported that many farmers found the letters sent from the Scottish Government estimating their land entitlements and how much they would be paid confusing, and in some cases the amount was incorrect.

65. Farmers had to spend additional time completing their applications owing to the slow performance of the IT system during the application period. This caused frustration and inconvenience. Many farmers pay agents to help them complete and submit their application. The additional time spent inputting details and dealing with a slow IT system meant agents spent longer submitting applications than in previous years.

66. The Forestry Commission Scotland (FCS) reported that delays in developing the IT system affected the delivery of Scottish Government woodland creation targets. The slow performance of the rural payments system was a contributing factor to fewer businesses than expected submitting applications for the forestry grant scheme as they lost confidence in the system. Together with the IT delays, this meant FCS was not able to commit £8.5 million of Scottish Government budget for woodland creation which would have funded 2,000 hectares of planting. FCS also reported that some tree nurseries were experiencing financial difficulties owing to delays to the pillar 2 forestry grant scheme.

There is a growing risk to the wider Scottish Government budget

67. The decisions to use the Scottish Government budget to make loan payments to farmers while claims are processed means farmers will receive money quicker. However, this introduces risk to the wider Scottish Government budget, including:

- Risk of overpayment. If a loan is made to a farmer which is more than the amount calculated as their basic payment, then the Scottish Government will need to recover the additional funds loaned. To mitigate this risk, the Scottish Government is only lending farmers 80 per cent of their estimated claim.

- Risk that the loan schemes cause delays to other loans to outwith the public sector funded from the financial transactions budget. If there is a delay in processing the farmers' claims for basic payments, and therefore repaying the loan, this may delay Scottish Government spending in other areas as the funds will not be available when expected during 2016/17.

- Risk that the schemes do not meet EC regulations. The interest element of each loan payment to farmers' counts as state aid. This is the provision of additional support which may put the person receiving the loan at competitive advantage compared to other similar businesses across the EU. There are a number of regulations that need to be followed. The Scottish Government took advice from its State Aid Unit before ministers approved these schemes.

68. There is also a cost associated with putting these payment systems and processes in place. At the time of reporting, the Scottish Government had just started to use these schemes to make loans to farmers. We will assess the implications during the annual audit of the 2015/16 Scottish Government consolidated accounts.

69. As well as these national schemes, the Scottish Government budget must cover the cost of the programme, and any future costs to deliver the business improvement and customer enhancement projects de-scoped from the programme in January 2016. As reported at paragraph 44, some programme costs have been reallocated to other Scottish Government AFRC budgets. The Scottish Government is still spending the money, irrespective of the business area it is charged to. In addition, any disallowance levied must be met from the Scottish Government budget.

The decision to make loans to farmers increases the risk of failure to make EC deadlines

70. Lending money from the Scottish budget will get money to farmers, crofters and rural businesses quicker and may take pressure off the programme for a period of time. However, it does not help the programme meet EC regulations. The Scottish Government needs to process and record loan payments to farmers from the Scottish budget, as well as continue to process, validate and calculate exact payments in line with EC regulations.

71. The system is now collecting the SAF 2016 applications. In addition, parts of the system to process and pay other schemes are still being developed, tested and launched. This puts increased pressure on the system, as it validates claims and processes payments for 2015 at the same time as it collects applications for the current year. It also puts additional pressure on staff who need to support farmers through this process, and also prioritise between actions.

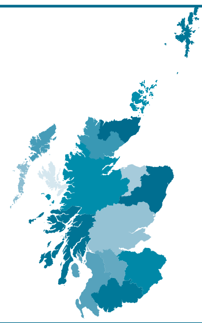
The programme will not achieve the anticipated value for money

72. The programme will not deliver the full value of the anticipated benefits, and will cost 74 per cent more than originally estimated. The programme now aims only to deliver a CAP-compliant system within the £178 million budget with some of the planned business and customer enhancements being delivered by other programmes in the future. As we have highlighted in paragraphs 57 to 62 there is a high risk that the programme will not achieve its aim to minimise disallowance. We do not expect the programme to deliver value for money.

73. It is unlikely the programme will fully deliver the planned business outcomes. A central aim of the programme was to deliver a better and more efficient system for farmers, crofters and rural businesses. However, the system was slow during the application period, and it took longer than originally planned to pay farmers, crofters and rural businesses in 2015/16, with some farmers not receiving their first payment (either basic payment or loan payment) until April 2016.

Part 2

Programme management



Key messages

1 The external environment for the programme is challenging. The EC regulations for the new CAP are complex and have been clarified over the life of the programme. Decisions the Scottish Government has taken, in discussion with the farming industry, on how the CAP is designed and delivered in Scotland have added to this complexity.

2 Programme governance has not operated effectively. Significant decisions were made outwith the programme governance structure; strategic decisions took too long; and senior programme roles and responsibilities overlapped and did not operate as intended.

3 Significant tensions between the programme team and the IT delivery team have added to programme delays. These key groups have not been operating as one team and management has failed to adequately address the seriousness of the problem. There has been a lack of trust and this has led to a blame culture developing. This has hindered efforts to resolve quality issues as there is no consensus on the underlying causes, contributing to delays.

4 There has been little accountability in the programme for IT delivery. From December 2014, the Scottish Government's Information Services Division became accountable for IT delivery rather than the supplier, but governance and oversight models were not updated. This led to ineffective oversight and control. There was a lack of detailed information on IT delivery available to the programme team, which made it difficult to challenge IT delivery timescales and estimates. Programme planning was consistently optimistic.

5 One of the contractors on the programme had a significant conflict of interest. He could benefit financially from decisions he had an influence over. Management took action to mitigate the risks arising from this, but this was inadequate and arrangements were not sufficient to ensure value for money.

programme governance has not operated effectively

The programme faced difficulties from the start

The original business case assessed a narrow range of options

74. The original business case set out the strategic vision for the programme to provide a customer-focused approach to the delivery of payments and CAP reform, supported by a new IT system. The business case options appraisal focused on a limited range of options for delivering the IT system. The business case focused solely on how the support necessary to develop a new system should be purchased. The original business case did not identify, or include the following good practice requirements:

- A 'do minimum' option as a baseline against which to measure other options.
- Alternative options, for example buying an existing system, or systems, to determine if there was a different approach to securing a compliant system.
- A full cost benefit analysis of all the options included in the business case as specified by HM Treasury guidance.[5]

75. The original business case did not fully recognise the size and scale of the task or articulate the level of uncertainty. EC regulations and details of Scotland's CAP schemes were yet to be finalised at this point.

76. The business case was prepared too late to enable two of the five options to be achieved within the timescale available. These options would have required a full competitive tendering exercise outwith the Scottish public sector procurement framework. This meant these options were, in effect, ruled out.

77. The Scottish Government failed to recognise that the programme would require senior programme and commercial management skills early enough. It did not complete a thorough enough skills assessment to support the original business case. From this early stage, the programme was one of the largest in central government and relied on the skills of the IT delivery partner and external advisers to succeed. An experienced programme director and dedicated commercial manager should have been appointed before the IT delivery partner was selected in May 2013, reflecting the programme's cost, complexity and dependence on suppliers. Instead, these roles were not filled until July 2014 and October 2014 respectively, as even once the need was identified the recruitment time for the posts was significant. This meant there was a lack of programme leadership and commercial skills in the first year, a critical period for establishing the direction of the programme.

Independent assurance reviews have identified similar failures

78. The programme has requested 12 independent assurance reviews, such as gateway reviews, since February 2012 to assist with decision-making and programme management.[6] These have identified similar issues to those we have previously reported, including the following:

- Lack of programme, commercial and contract management, and specialised ICT skills.
- Lack of detailed programme plans including contingency plans.
- Poor controls over payments to, and oversight of, CGI and IT delivery.

- Poor-quality products being delivered.
- Slow decision-making.
- Low morale and the risk of staff burn-out.

79. These reviews have consistently reported that there are significant risks to successful delivery which require urgent action. The Scottish Government put actions in place to address these but the need to deliver quickly to ministerial and regulatory deadlines has meant many of these issues have not been properly addressed.

The programme is operating in a challenging external environment

80. A number of external factors have contributed to the complexity of the programme. The CAP reforms being introduced are widely recognised as introducing complex changes. EC requirements were not fully agreed before the programme needed to start, and clarification on the rules was made by the EC as the programme developed. This has resulted in an uncertain operating environment.

81. The Scottish Government has the flexibility to design its own schemes, within the EC framework. Following discussion with the farming industry, the Scottish Government decided to develop schemes tailor-made for the Scottish rural economy. This includes developing new schemes, and creating an additional paying region for low-quality land. This made three separate regions each having a different payment rate. This has added another level of complexity to the programme and system requirements.

82. The Scottish Government has made the majority of payments in December in previous years. There was an expectation by external stakeholders and ministers that payments in 2015 would follow a similar timetable. Farmers, crofters and rural businesses highlighted the need for the payments to maintain cash flow within the rural economy, particularly given other adverse events affecting the sector such as low milk prices and flooding. The Scottish Government responded by making alternative arrangements to pay farmers as early as possible.

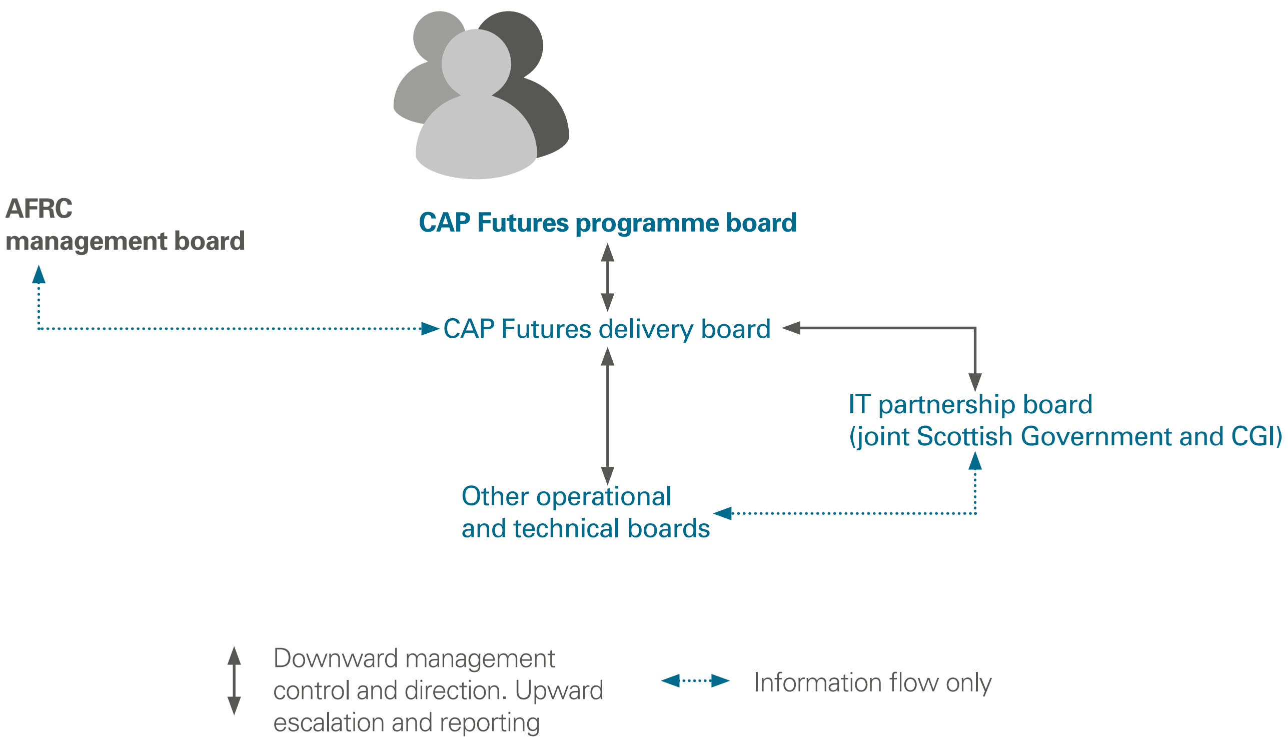
Significant decisions were made outside the programme governance structure

83. The key governance board is the programme board and, it is chaired by the programme sponsor (Exhibit 9, page 29). Its role is to provide advice to the programme sponsor. It also has the authority to make decisions on all aspects of programme delivery. Ministers become involved in decision making when an issue is assessed to be significant.

84. The programme team commissioned Deloitte to complete a review of governance arrangements in December 2015. It found that the governance structure was not operating effectively and that:

- the programme board was operating more in an advisory capacity to the programme sponsor rather than formally making decisions
- decisions were taken by senior management outwith governance structures, with the programme and delivery boards often only ratifying decisions
- strategic decisions took too long to make

Exhibit 9
Programme governance structure



Source: Audit Scotland

- there was an overlap between governance structures and management structures. This meant reporting lines, and responsibilities were confused.

85. We found that the programme sponsor got involved in more of the detailed operational decisions than we would normally expect, particularly when the programme was under pressure. This meant that roles and responsibilities of programme senior management were confused and strategic oversight was weakened as the focus was on delivering to short-term targets and timescales.

86. We found evidence that the programme governance structure was not used appropriately at key points. The programme board was often used to ratify decisions rather than make decisions. Instead, decisions were taken by ministers, with advice from the programme sponsor and senior management outwith the programme board meetings. The fast-moving pace of the programme and the timing of programme board meetings, and the pressure on the timeframe for payments, meant that it would not always be possible for all events and decisions to be discussed in advance. However, we would expect that the programme board would be consulted wherever possible.

87. Senior management presented brief information on options for starting payments to farmers in December 2015 to the programme board; but these did not fully outline the potential impact of these options. Programme senior management then worked up these options more fully to present to ministers, who made the final decision. The programme board, including delivery partners, was not given the opportunity to discuss the full impact of the decision on the delivery of other schemes in advance of this decision. Given the potential impact on the programme and key stakeholders, we would expect this to be discussed at the programme board in detail to ensure that the decisions made were subject to due consideration of the potential risks and implications.

88. Similarly, decisions taken by ministers in February and March 2016, to provide cash loans to farmers who had not received their LFASS and basic payments, were taken between board meetings. Proposals to use the Scottish Government budget to fund these loans were discussed briefly at a programme board meeting in October 2015. Discussions continued offline between the programme sponsor and Scottish Government finance teams and there was no evidence of arrangements and the risks and implications being considered by the programme board in advance of the final decision being announced.

89. These two significant issues were not discussed in detail at the programme board. This meant it did not have a full picture of the programme and its risks, and therefore was unable to fulfil its role and operate in the manner originally intended.

Senior management took too long to make some key decisions

90. Senior management took too long to make some strategic decisions, putting the delivery of some of the programme's key elements at risk.

91. We identified two specific examples of key decisions that took several months to make. The programme explored contingency options for the system. The Scottish Government assessed whether a software package being used by other countries' paying agencies for CAP payments would meet Scottish requirements. The programme board and sponsor spent 14 months investigating possible options and discussing with the supplier, without making a firm decision about whether they should use it or not. The extra time took focus away from delivering the programme and required significant management and programme board time.

92. EC regulations require member states to have a compliant land-mapping system. The decision to purchase new land-mapping software, known as the Land Parcel Information System (LPIS) took too long. The final decision was taken in December 2015, with the invitation to tender being issued on 26 January 2016. This was despite the governance boards approving the invitation to tender in August 2014, and ministers approving funding in July 2015. The current LPIS system has been running on unsupported software and hardware for some time. It may not be possible for the current system to support the provision of electronic 'Geo-spatial Aid' application forms on a phased basis from March 2016 onwards. An accurate and functioning LPIS is required to validate area-based claims prior to paying farmers.

Programme teams have not been working effectively together

93. Throughout 2015, the programme team and the IT delivery team (led by the internal Information Systems Division) have not been working together effectively. A number of independent reviews throughout 2015 identified this as an issue. There is a lack of trust between the programme team and the IT delivery team. There is no common understanding of the reasons for the lack of quality and slower-than-anticipated progress, with the two sides blaming each other.

94. There is evidence that the programme team needed to use top-level governance boards, for example the delivery board, to request detailed resource information from the IT delivery team. This type of information should be readily available. This took additional time and delayed programme planning, as the programme team had limited detail on how contractors were being deployed. It did not have full oversight of IT delivery to help make decisions and did not trust the IT delivery forecasts.

95. This lack of transparency and unity should not have been allowed to develop. The programme sponsor set up weekly meetings with the senior responsible owner, programme director, and the head of ISD; and commissioned some team development sessions but the tensions remained. The pressure on the payment timetable meant that some of these actions were not fully concluded.

96. The lack of cohesion and trust has added to the complexity of the programme, and held the programme back from being able to react quickly to resolve emerging problems. This has taken the focus away from the programme's shared vision and the delivery of programme objectives.

The programme board was not made aware of the cultural issues

97. The programme board has not been made aware of the seriousness of the issues between the programme team and IT delivery team. Some programme board members reported they were aware of the issues but this had not been explicitly discussed or drawn to their attention. The issues had been detected from reading gateway and other reviews.

98. The lack of openness about the cultural issues at board level meant that the problem was not fully acknowledged or acted on. The situation did not improve throughout 2015. The programme board was not given the opportunity to fulfil its role and offer advice or solutions.

Programme planning was optimistic

99. Our review of programme planning found that it was frequently optimistic, particularly IT delivery estimates. Gateway reviews throughout 2015 also found this. In some cases actual dates for delivery of IT features were up to 19 weeks longer than the original estimate. This meant the overall programme plan had to be frequently reviewed and updated.

100. Uncertainty over delivery times of some features throughout 2015 has affected programme delivery and the relationship between the IT delivery team and the programme team. The programme team found it difficult to trust the estimates that the ISD provided them with because they kept changing.

101. Some programme board members could not understand why estimates for IT delivery had not improved over time. In general, they would have expected estimates to improve over time as more products were delivered.

102. As highlighted at paragraph 80, the programme was operating in an uncertain environment, but there were a number of elements within its control which could help to reduce uncertainty at programme level. It did not develop robust and detailed enough plans to effectively plan the programme, and the focus on short-term ministerial targets was detrimental to longer-term plans for the delivery of other schemes.

The Information Systems Division took control of delivery but had little accountability to the programme team

103. From May 2013 to December 2014, CGI was accountable for IT delivery and the Scottish Government had arrangements in place within the contract to encourage effective performance and delivery. This included penalising CGI for not meeting the required performance measures. The Scottish Government withheld £410,000 during this period.

104. Gateway reviews during 2013 and 2014 highlighted concerns about programme leadership, management capacity, capability and control over the contract and costs.

105. We reported in April 2015 that the Scottish Government had changed to a new IT delivery model in December 2014.[7] This involved its ISD taking direct control of IT delivery and staffing from December 2014. The ISD leadership team took control of product delivery, with CGI providing IT staff. CGI was no longer accountable for service delivery, with it submitting invoices for contractor's time and materials. ISD directed the contractors, including the number and skills deployed.

106. This delivery model was initially introduced as a short-term recovery model, developing software on a just-in-time basis. It helped to deliver the registration software and single application form on time. The need to deliver quickly meant the programme continued to use this model throughout 2015.

107. In this model, ISD effectively became the internal supplier. The Scottish Government did not change the governance structures to take account of this fundamental change in roles. The head of ISD reported directly to the programme sponsor in accordance with the directorate line management structure rather than through the programme governance structure. There was no accountability to the Futures programme director.

108. This structure and delivery model meant that the programme team had little power to influence the internal supplier to encourage good performance, or penalise poor delivery or quality. The programme team could not hold the ISD leadership to account for poor delivery.

109. The programme team also could not direct the ISD team, in terms of decision-making on the number of contractors, or programme planning. This lack of accountability together with the poor working relationships, highlighted at paragraph 93, led to a lack of understanding within the programme team of how IT delivery was progressing.

Lack of challenge and oversight has made it difficult to ensure quality

110. Controls to monitor and review the quality of the products were not effective. Under a time and materials contract there is no real incentive to increase performance. The Scottish Government initially used a balanced scorecard to assess performance and the quality of products for each work order. A balanced scorecard measures performance over a range of measures agreed by both the Scottish Government and the supplier. The Scottish Government paid 90 per cent of an invoice value, with the remaining ten per cent retained until the balance scorecard was agreed. This arrangement stopped in December 2014 when accountability for IT delivery was transferred from CGI to ISD.

111. During 2015 this approach was replaced by a basic assessment of staff effectiveness that the ISD leadership team signed off. Out of three options the team assessed staff to be effective or highly effective.

112. The software produced during 2015 has suffered from significant quality issues. Although the system opened for applications on time in March 2015, users reported that the performance was very slow for the first six weeks which made it frustrating to use. Agents completing forms on behalf of some farmers had planned to revert to paper forms just before the system was fixed. This caused significant frustration and wasted time for applicants.

113. Once the applications are received the system needs to check, process and validate them before payment. Slow progress has been made processing the applications. The software for this was still being built when processing started. Too many errors were identified during the last phase of software testing (User Acceptance Testing) which has put pressure on meeting deadlines. The software does not then function as it is needed and it takes additional time to fix the error or re-write the software.

114. Programme board members have challenged why quality has not improved over time. Management has indicated that there are a number of potential reasons for this including:

- Pressure to deliver software outputs to short timescales.
- Short timescales have meant there is no time to look back and analyse what has gone wrong.
- User requirements for the software have been poorly defined, meaning that some critical functions have been missed out, or misinterpreted by the software developers.
- Lack of specialists within the business who understand the complex requirements, and their inability to fully integrate with the software developers at key points in the development process owing to other work commitments.
- Tiredness caused by teams working flat-out over a long period of time has increased the risk of human error.

The programme team had limited oversight of IT delivery resources, including contractor numbers or types of skill

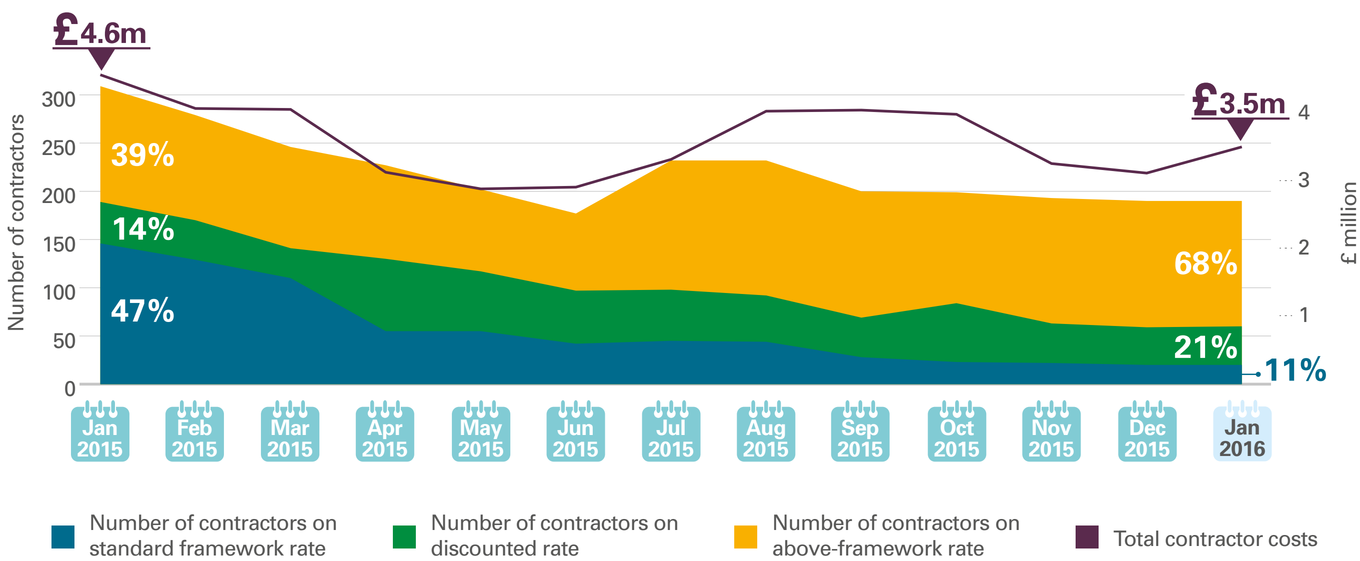
115. As we previously highlighted (Exhibit 7, page 18) many contractors are working on the programme, and there is a high rate of turnover in these contractors. It is a significant challenge to effectively oversee this number of people, ensure that all processes and controls are adhered to and that work is coordinated efficiently.

116. Both Audit Scotland and internal audit highlighted weaknesses in the controls over payments to contractors during 2014 and 2015. There was a reliance on CGI controls and a lack of formal processes for verifying staff attendance and receiving notifications of contractors leaving. The programme team responded to these concerns and improved the operational controls over these processes from September 2015.

117. There remained a lack of high-level control over contractors. While ISD had overall responsibility for resources, the programme team did not have enough information or influence over the number of contractors or their rates of pay. We found that throughout 2015 a significant number of contractors were on rates higher than the originally agreed CGI framework rates. A Scottish Government review of contractor rates in September 2014 showed that due to market demands, rates for certain types of contractor skills were well above those set in the original framework. Processes were in place to authorise the payment of these higher rates. The pressure to deliver to the payment timescales has meant that the programme needed to recruit according to the market conditions at the time. If there were competing demands in the external market for contractor skills which increased market rates, the programme could not wait for more favourable conditions and therefore had to pay the increased rate.

118. Exhibit 10 shows how many contractors were paid above-framework rates, along with the total cost of contractors. The number of contractors paid standard framework rates decreased from 146, forty seven per cent of total contractors, to 20, eleven per cent of total contractors during 2015. There was a significant increase in CGI subcontractors recruited on above-framework rates between June and July 2015. This was due to the programme bringing in more people to try and meet the December payment deadline. This large increase in contractor numbers required ministerial approval. We did not see any evidence of an assessment of the reasons for the higher-than-framework rates being presented to the programme board, and whether this represented value for money. The main concern was to get the staff in place as quickly as possible.

Exhibit 10
Number of contractors on different rates and total cost of contractors



Source: Audit Scotland

119. In March 2016, the programme renegotiated reduced rates with contractors. This is very far into the programme and it may not be enough of a saving to relieve pressures on the budget for the remainder of the programme.

The Scottish Government has changed back to the original IT delivery model

120. In February 2016, the programme reverted to the original model for IT delivery, bringing in a new delivery director from CGI. This gives CGI accountability for IT delivery for the remainder of the programme. It was forecast that this model could also:

- make financial savings
- allow ISD to focus on setting up the structures and processes to deliver the systems and business-as-usual functions once the programme ends.

121. A new balanced scorecard was also introduced in February 2016 to monitor quality and performance. The programme's commercial and finance manager now has more oversight and control of contractor performance and rates.

122. The delivery model and monitoring arrangements are still new, and given the rate of spending of the programme, there is little time for these changes to make an impact. It will be difficult to implement the new delivery arrangements at the same time as administering three new loan schemes and performing all the required checks for basic payments and other pillar 1 schemes.

Conflicts of interest were not dealt with effectively

123. The ISD leadership team for the programme consisted of the head of ISD, the delivery director, and the chief technology officer (CTO). The head of ISD is now a Scottish Government contractor but had previously been employed by CGI in a senior role on the programme for a short period. The Scottish Government did not formally consider any conflicts of interest arising from this appointment or consider whether any additional controls were required.

124. The delivery director was employed by CGI. In December 2014, the Scottish Government was notified by a whistle-blower that the delivery director owned an agency that provided both CGI and a recruitment agency used by the Scottish Government with the staff it needed for the programme. This meant there was an opportunity for the delivery director to benefit financially from the programme recruiting from his company. The delivery director had a key role in recruiting and managing contractors.

125. Ministers were notified of the conflict of interest and the Scottish Government set up a resources group in March 2015 to ensure that recruitment decisions were not taken by an individual. The delivery director was a member of this group, and therefore still had the opportunity to influence recruitment decisions, and was also involved in the quality assessments for people recruited through his agency. Other members of the resources group were aware of the conflict of interest.

126. The delivery director was still able to sign off overtime claims for contractors, including those coming through his agency. The delivery director should not have been on the resources group and allowed a direct involvement in recruitment decisions. The arrangements that were in place were not strong enough to address the risks and did not ensure value for money.

127. The Scottish Government operates a register of interest for all staff members to register conflicts of interest, and to record review and approval of any conflicts. In July 2015, the Scottish Government extended the use of its standard register of interest to all contractors on the programme to ensure it was aware of all conflicts. The delivery director's conflict of interest was formally recorded on the register at this point, eight months after the Scottish Government was notified of the conflict.

128. There were opportunities for the delivery director to influence recruitment decisions and be involved in the quality assessments for people recruited through his agency. In January 2016, the Scottish Government identified that out of 107 contractors who were on a day rate higher than that agreed in the original framework with CGI, 97 had been recruited by CGI through the delivery director's agency (Exhibit 10, page 34). Processes were in place to authorise the recruitment of contractors on above-framework rates. The Scottish Government undertook an assessment of contractor rates in January 2016 and negotiated new rates (paragraph 119).

129. The delivery director was removed from the programme in January 2016. CGI still uses staff employed through his recruitment agency on the programme. Recruitment controls and quality monitoring controls have improved since January 2016.

The Scottish Government has not adequately considered transition arrangements for the end of the programme

Staff have been working hard and there is a risk of burn-out

130. Staff from right across the programme, the wider business and its delivery partners have been working at a very high pace for the past 18 months, often working long hours and at weekends. Staff have shown ongoing commitment to delivering the programme in a challenging environment. This level of commitment is not sustainable. Gateway reviews throughout 2015 highlighted this as a considerable risk. Morale has been affected by the lack of an end date for the programme. The reassessment of scope completed in January 2016 has put a provisional end date of March 2017 for the programme. This is still a long period of time to sustain the current work rate, and there is a significant risk that the current programme staff cannot continue at the current pace until March 2017.

131. A staff survey in December 2015 showed that staff engagement scores within AFRC had decreased from previous years. Senior management have been involved in staff focus groups set up in early 2015 to work with staff on some of the issues raised in the 2014 and 2015 surveys.

132. There is a risk that tiredness and the fast pace of delivery could be leading to human error, which is a contributing factor to a lack of quality. This leads to additional workloads and increased timescales as products need to be re-worked. There is also a risk that staff will leave the programme or business and this will impact on the delivery, timescales and cost as their skills and knowledge are lost.

Plans to transfer skills and knowledge to permanent staff need to be put in place immediately

133. As the IT systems continue to develop and come into use there is an immediate need to focus on the day-to-day processes and activities. Activities to support future business-as-usual processes, such as training staff, developing guidance notes, and maintaining the system, have been neglected as the focus has been on delivering the required software and features to process claims and make payments. Programme board members and delivery partners have also raised this as a concern. The Scottish Government has recognised this and put a new IT delivery director in place in February 2016 to allow the head of ISD to focus on future business-as-usual activities and business continuity.

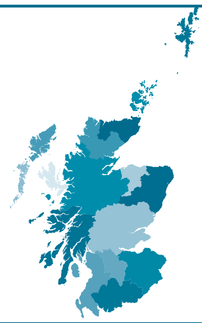
134. The delivery of the programme has used a large volume of contractors, including the programme director and head of ISD whose contracts will shortly come to an end. The Scottish Government needs to put plans and processes in place immediately to ensure that knowledge and expertise are transferred to permanent members of staff. Otherwise staff will not know how to operate the systems and make the required improvements to the system going forward. Any subsequent programmes to deliver the remaining EC requirements that the futures programme does not deliver will be at risk of failing owing to lack of skills and knowledge.

Business continuity arrangements are still to be finalised and fully tested

135. As more schemes and services are provided by the rural payments system it is important that appropriate processes are put in place to ensure service continuity. A rural payments disaster recovery system was brought into service in March 2015. Any data in the rural payments system could be recovered if the system failed. The Scottish Government estimates that it would be able to get the system running again within three days of any disruption.

136. There are not currently robust disaster recovery arrangements in place for some of the related IT systems, for example legacy systems such as the LPIS system. Arrangements are in place to prevent the loss of data, but it could take a number of weeks to get these systems fully operational again in the event of any disruption. Payments cannot be processed without these related systems. There should be a complete disaster recovery plan in place to ensure business and service continuity for the rural payments system, software development, and supporting legacy systems. The Scottish Government has not had the time to fully develop and test a complete disaster recovery plan owing to the pressure to deliver payments to farmers. It is important that this is put in place to prevent the loss of data and service delivery going forward.

Endnotes



1 Letter from Audit Scotland to Public Audit Committee, 21 April 2015, http://www.scottish.parliament.uk/S4_PublicAuditCommittee/2015_04_21_AGS-PAC_CAP_update(1).pdf

2 *The 2014/15 audit of the Scottish Government Consolidated Accounts* [PDF], Audit Scotland, October 2015.

3 The European Agriculture Fund Accounts are subject to separate audit arrangements overseen by the European Commission.

4 Figures are based on the European Agriculture Fund Accounts 2015 audited outturn figures.

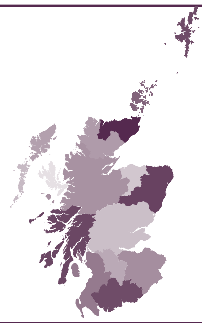
5 *Public Sector Business Cases: Using the five case model. Green Book supplementary guidance on delivering public value from spending proposals*, HM Treasury, 2013.

6 A Gateway Review is a short-focused, independent review to provide an assurance check on the status of a programme. Recommendations are made to help decision-making and programme management. There are six types of review carried out at different stages of the programme. The Scottish Government's Programme and Project Management Centre of Expertise carry out the reviews.

7 Letter from Audit Scotland to Public Audit Committee, 21 April 2015, http://www.scottish.parliament.uk/S4_PublicAuditCommittee/2015_04_21_AGS-PAC_CAP_update(1).pdf

Appendix

Audit methodology



We reviewed a range of information during our audit, including the following:

- Papers from the AFRC Futures programme and delivery boards, and other relevant management documentation (eg, business cases and programme plans).
- Gateway review reports prepared by the Scottish Government's Programme and Project Management Centre of Expertise.
- Written submissions from external stakeholders (National Farmers Union Scotland and the Scotland's Rural College), and from Scottish Natural Heritage, and the Forestry Commission Scotland who help the Scottish Government deliver some CAP schemes.
- Papers from the Scottish Government's Enterprise and Environment Audit and Risk Committee, and the Scottish Government Audit and Risk Committee.

We spoke to representatives from:

- Scottish Government
- Futures programme and delivery boards
- CGI.

Common Agricultural Policy Futures programme

An update

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