

 AUDITOR GENERAL

**Agriculture Business
Improvement scheme (ABIS)**

AGS/2000/1

The Agricultural Business Improvement Scheme

**Laid before the Scottish Parliament by the
Auditor General for Scotland in pursuance of the
Public Finance and Accountability (Scotland) Act 2000
8 June 2000**

AGS/2000/1

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Part 1: Introduction

- 1.1 This is the report of my examination of the Agricultural Business Improvement Scheme (ABIS). It is based upon work carried out by Audit Scotland. The first part of the report describes the background to ABIS, outlines concerns and issues about the scheme raised by the Scottish Parliament and sets out the scope and methodology of the examination of the scheme. The second part describes how the Scottish Executive Rural Affairs Department (the Department) administered the scheme. In the third part, I offer my conclusions and recommendations.

Background to the Agricultural Business Improvement Scheme

- 1.2 The Agricultural Business Improvement Scheme was an agricultural grant scheme, funded partly by the European Union. The scheme operated between 1994 and 1999 and provided farmers and others in the Highlands and Islands with support for their agricultural business expansion projects. Its aims were to improve the income-generating potential of those in agriculture, maintain rural employment and enhance the environment.
- 1.3 In July 1993 the European Commission designated the Highlands and Islands as an area which would attract European Union Objective 1 status from 1 January 1994 to 31 December 1999. Regions generally qualify for Objective 1 status when their per capita Gross Domestic Product is less than 75 per cent of the European Community average over a three-year period. Objective 1 enables the Member State to apply to the European Commission for part funding to support economic development in that region. Funding can support a range of programmes including infrastructure development, training and educational schemes and agricultural and fishery development. Under Objective 1 status the European Community and the UK Government jointly funded some £570 million of investment across a range of programmes in the Highlands and Islands (Figure 1). Programmes were identified and monitored by the Objective 1 Monitoring Committee comprising representatives from a range of bodies with an interest in the region including the Scottish Executive; Local Authorities; Enterprise Companies; the Department of Trade and Industry and the European Commission.

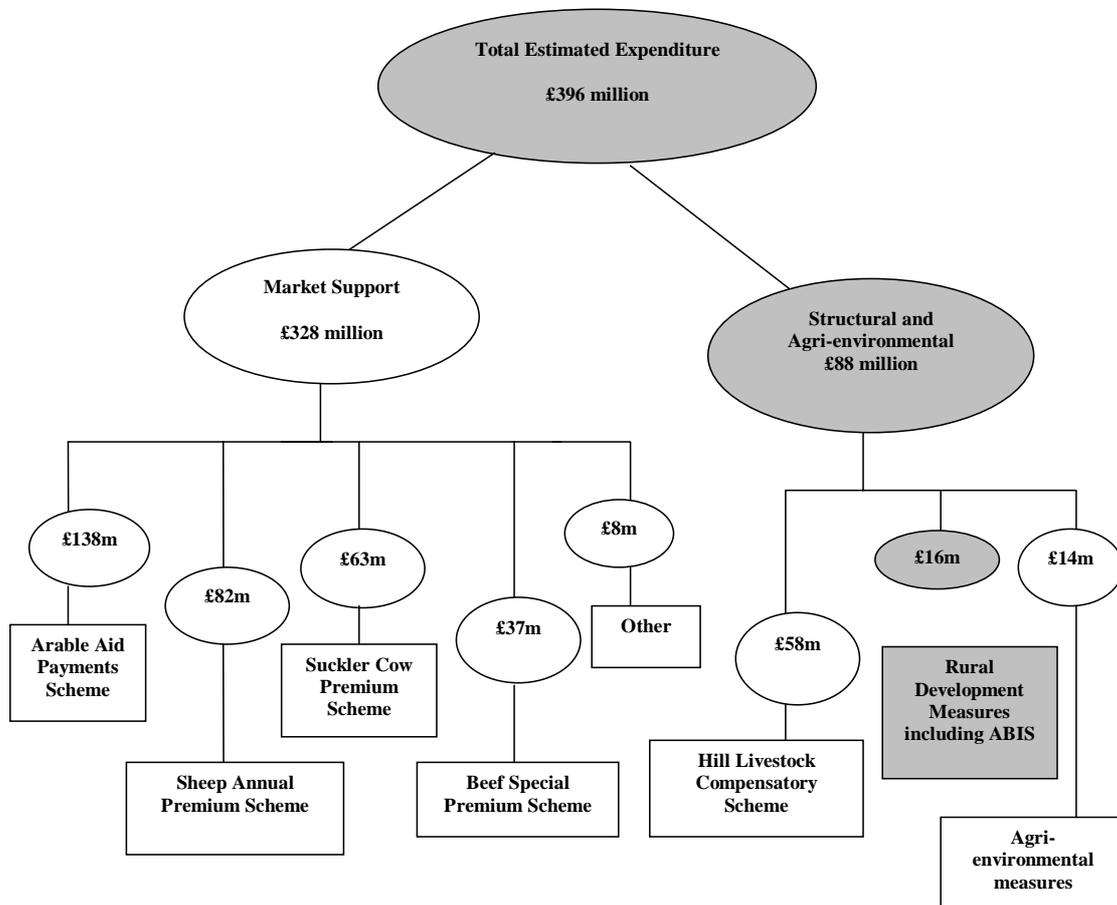
Figure 1: Programmes supported through Objective 1 Status for the Highlands and Islands

Programme	GB Government contribution £ million	EU contribution £ million	Private sector contribution £ million	Total £ million
1. Support for business	58	58	122	238
2. Tourism, heritage and cultural development	19	19	35	73
3. Preservation/enhancement of the environment	13	13	2	28
4. Development of the primary sectors/food industries	100	55	64	219
5. Community development	36	38	0	74
6. Communications and service networks	96	64	14	174
Total	322	247	237	806
Total GB Government and EU contribution	569			

Source: SERAD Highlands and Islands Objective 1 Programme Intermediate Assessment Final Report

1.4 Agriculture is crucial to the economy of the Highlands and Islands. Some 23,000 people are in full or part-time employment in agriculture in the region. Farms and crofts produced a gross output of £325 million in 1996 (the latest figures available) representing six per cent of Highlands and Islands Gross Domestic Product (compared to some two per cent for Scotland as a whole). The Department pays a range of grants to support the industry (Figure 2), most of which are co-funded by EAGGF (European Agriculture Guidance and Guarantee Fund).

Figure 2: Agricultural grant schemes funded by the Scottish Executive Rural Affairs Department for financial year 1999-2000

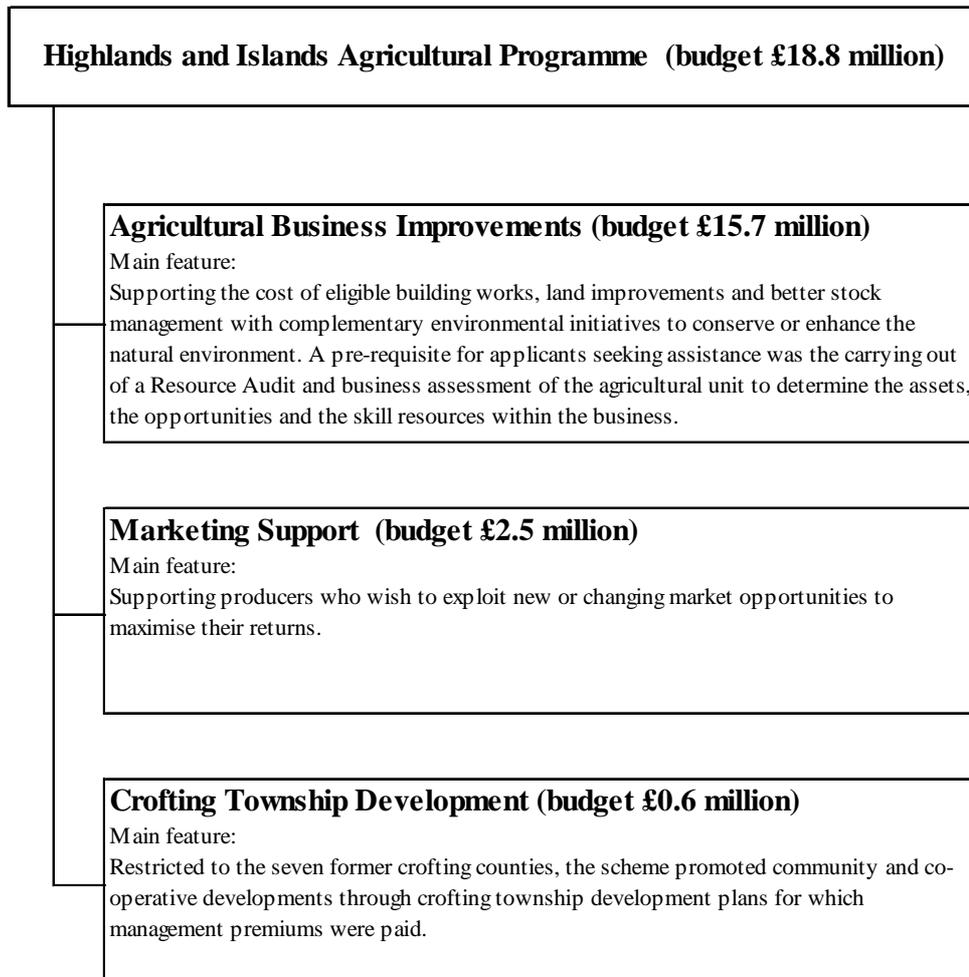


Source: Investing in You: The Annual Expenditure Report of the Scottish Executive 1999-2000 to 2001-02

1.5 To further promote agriculture in the region, the Objective 1 Monitoring Committee identified the need to develop the Highlands and Islands Agricultural Programme (HIAP). The programme's overall aim was to improve farming and crofting business in the area. The initial five year budget set for HIAP was £23 million (the sterling equivalent of 30 million ECUs at that time), including an indicative £18.4 million for ABIS, to be funded equally by the Scottish Executive and the European Union. Over time, the HIAP budget was reduced to £18.8 million (Appendix 1).

1.6 HIAP was divided into three elements: the Agricultural Business Improvement Scheme (ABIS), the Marketing Scheme, and the Crofting Township Development Scheme (Figure 3). By 31 December 1999, £15.7 million had been committed to ABIS.

Figure 3: The Highlands and Islands Agricultural Programme



Source: SERAD

1.7 The objectives of ABIS were to:

- improve the efficiency of the agricultural unit;
- improve margins by reducing the reliance on purchased agricultural inputs;
- improve the quality and value of agricultural products;

- encourage the uptake of opportunities by farmers and crofters to become involved in other economic activities; and
- maintain the high environmental quality of the area through enhancement initiatives.

All crofters, farmers, partnerships and other legal entities carrying out recognised agricultural business within the Highlands and Islands were eligible for financial assistance under ABIS. A range of business improvement work was eligible for varying levels of assistance. When the scheme was introduced in 1994 there was no limit on the number of applications for ABIS assistance a farmer might submit but a cumulative limit of £20,000 was set for the grant payable to any single farming business. The range of measures, the level of assistance available and the limit on grant for any farm were revised in March 1999. Figure 4 summarises the main areas assisted by the scheme and levels of assistance available in the period 1994 to 1999. Further details on the types of project assisted and the benefits expected from assistance are set out in Appendix 2.

Figure 4: Projects eligible for grant and level of grant assistance under ABIS

Improvement works	Original grant rate available (%) (Subject to a limit of £20,000 per farm)	Revised grant rate available from 31 March 1999 (%) (Subject to a limit of £40,000 per farm)
1. Agricultural buildings	40	50
2. Facilities for stock handling; sheltering/feeding out-wintered stock	40	50
3. Systems for storage and disposal of farm waste	40	50
4. Land improvement/management works	35% for most works	35% for most works
5. Supply of utilities such as electricity and water	40	50
6. Diversification measures (e.g. Tourism)	40	50
7. Environmental enhancement measures	50-70	50-70
8. Conversion of redundant farm buildings for residential letting*	N/A	50
9. Alternative Agriculture Production*	N/A	50
10. Provision of Information Technology*	N/A	50

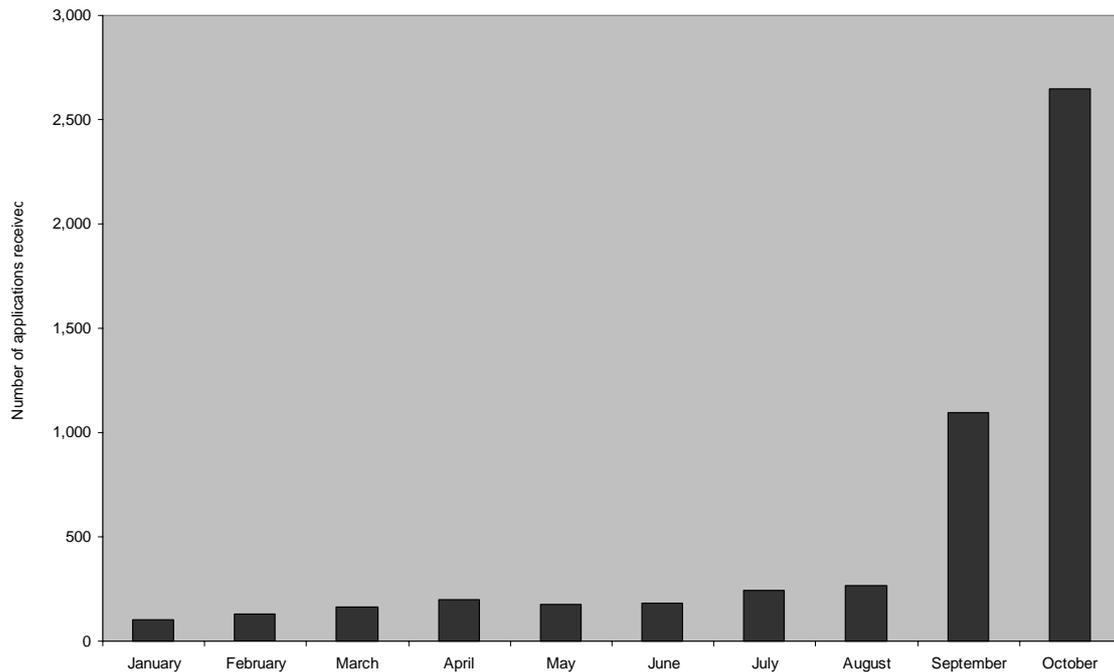
* New measures introduced from 31 March 1999

An additional 10 per cent grant is payable to vernacular buildings for improvement works 1 to 6

Source: SERAD

1.8 During the lifetime of the scheme, the Department received 9,422 applications from 1,835 farming businesses for ABIS grant assistance. 4,805 applications were received between 31 December 1994 (when ABIS was introduced) and 30 March 1999 (when the revised terms were introduced). When the revised terms were introduced the rate of recorded applications started to increase (from 163 in March 1999 to 265 in August 1999) and the rate increased significantly in September (1,097) and October 1999 (2,645) (Figure 5). Because the European Commission required commitments for support from their structural funds, including Objective 1 funding for the Highlands and Islands, to be entered by 31 December 1999, the Department set a deadline of 31 October 1999 for receipt of applications for all the schemes they supported. The Department told Audit Scotland that ABIS was the only such scheme where they experienced any significant increase in applications in the months before the deadline.

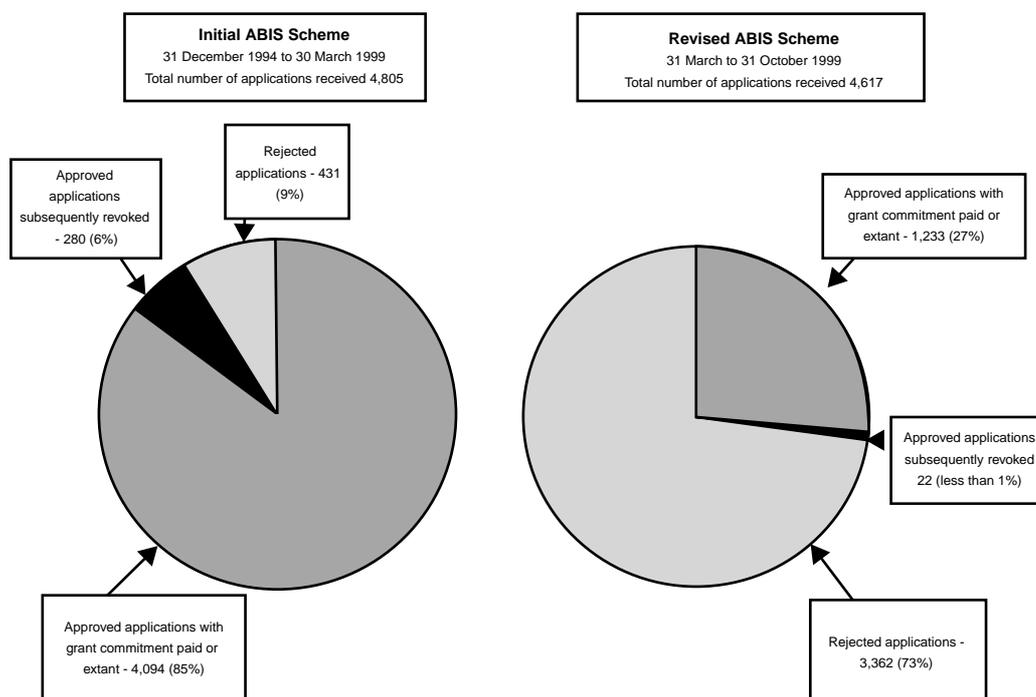
Figure 5: Number of grant applications received per month January-October 1999



Source: SERAD

- 1.9 The Department approved 5,629 of the 9,422 applications they received although by 31 March 2000 they had subsequently revoked approval in 302 cases mainly because the farmer had not claimed grant within the two-year period allowed to carry out the project. By 31 December 1999 the Department had paid out £9.6 million in grant claims and a further £6.1 million had been committed to approvals where grants had not yet been claimed. Seventy-eight per cent of approved applications (69 per cent of spend) related to expenditure under the original scheme and the remainder was approved after the scheme was revised. The average value of grants under the original scheme was £2,724. For grants under the revised scheme the average was £3,854.
- 1.10 Significantly more applications were rejected under the revised ABIS terms. The Department rejected 431 of the 4,805 applications they received (nine per cent) between 31 December 1994 (when ABIS was introduced) and 30 March 1999 (when the revised terms were introduced). For applications between 31 March and 31 October 1999, when the revised terms applied 3,362 of 4,617 applications received were rejected (73 per cent). The main cause of the increase in the proportion of cases rejected was that the overall value of grant applications exceeded the funds available in late 1999 (Figure 6).

Figure 6: The fate of ABIS applications



Note: Position as at 31 March 2000. Approvals may be subsequently revoked if the farmer does not submit claims for grant within two years of the date of approval or by 31 October 2001 whichever is earlier.

Source: SERAD

Scottish Parliament interest in ABIS

- 1.11 The level of rejected grant applications led to concerns within the farming community that ABIS had not been well administered. In response to these concerns, the Rural Affairs Committee of the Scottish Parliament took evidence from the Minister for Rural Affairs, the Scottish Executive and other stakeholders, including the National Farmers Union of Scotland. In December 1999, the Committee produced an interim report which made a series of recommendations and requests relating to the scheme (Appendix 3). The report noted that the Committee had requested the Audit Committee to consider the circumstances of ABIS.
- 1.12 As a result of the Rural Affairs Committee's request, the Audit Committee invited the Comptroller and Auditor General to undertake an investigation. On 1 April 2000 audit responsibility passed to the Auditor General for Scotland.

Scope and methodology

- 1.13 Against this background Audit Scotland examined whether the Department had administered ABIS efficiently and provided a good quality of service.
- 1.14 The methodology for carrying out the examination, which is described in more detail in Appendix 4, included:
- discussing the scheme with Departmental senior management;
 - reviewing high-level information provided to the Rural Affairs Committee;
 - interviewing key stakeholders (National Farmers' Union of Scotland; Scottish Crofters Union; Scottish Land Owners Federation; Scottish Agricultural College);
 - reviewing Departmental documents, including a sample of grant application and payment files;
 - analysing high-level data on actual and committed expenditure; and
 - visits to four of the Department's 18 Area and Sub Offices, responsible for processing over 80 per cent of scheme applications.

Part 2: The administration of ABIS

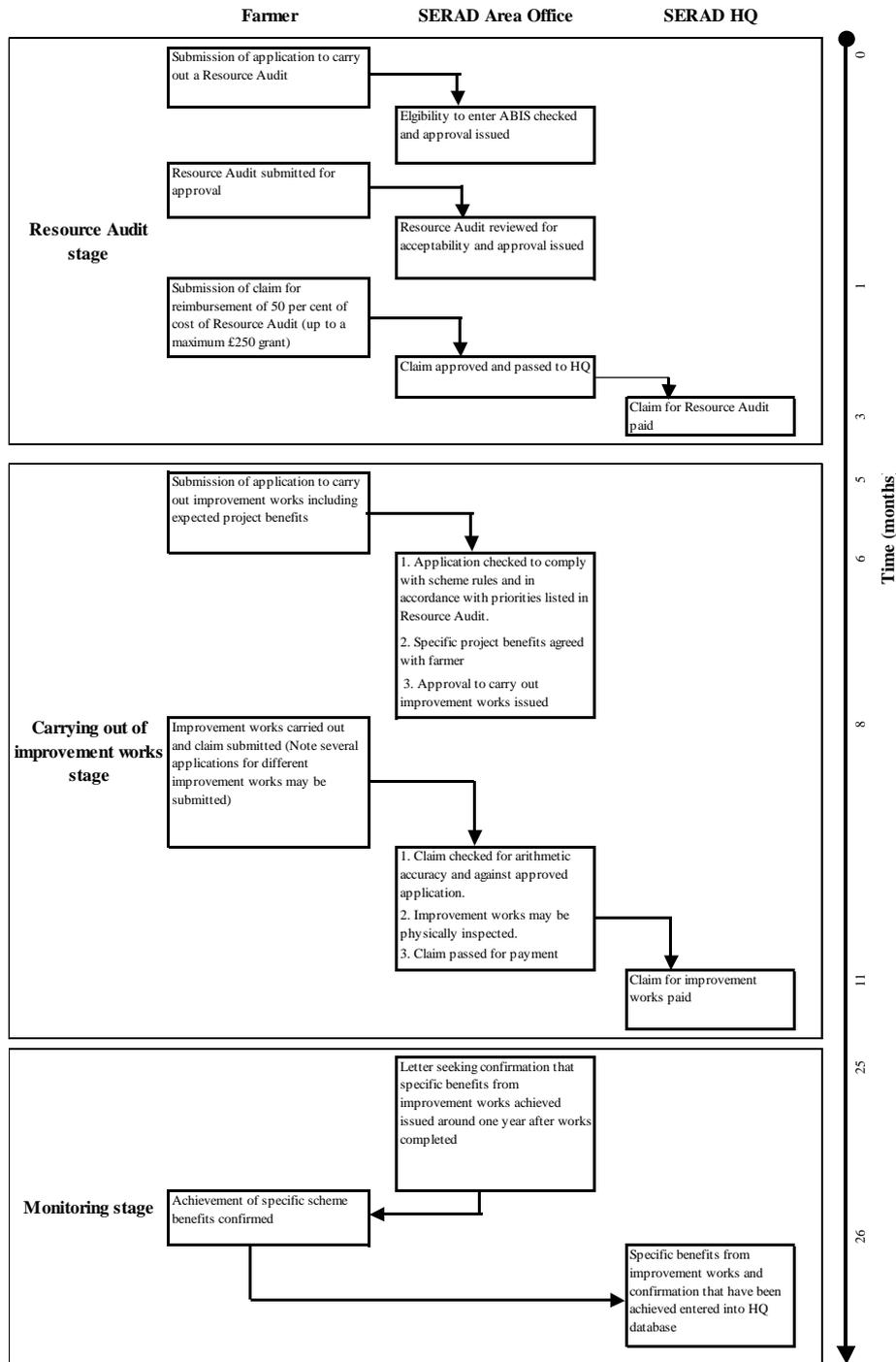
- 2.1 This part of the report describes how the Department controlled and monitored ABIS grants and the steps taken following the decision to revise the scheme.

How the Scheme was operated

The Department maintained sound controls over grant payments

- 2.2 EC regulations and UK legislation governed the operation of ABIS. Specific EC rules for the scheme were set out in the Single Programming Document for Community Structural Assistance in the region of the Highlands and Islands (UK) designated for Objective 1 status. UK statutory authority for ABIS was given through Statutory Instruments 1994/3096 and 1999/647. The Department were responsible for defining operational rules for the scheme. They provided detailed guidance through desk instructions to their Area Offices and they also provided potential grant applicants with explanatory leaflets on the scheme. The steps taken in processing an ABIS application are set out in Figure 7.

Figure 7: Key steps in ABIS grant procedure



Note: The times shown are for illustrative purposes only and individual projects are subject to significant variation. ABIS regulations stipulate that a farmer must submit his claim for grant within two years of the date of approval or by 31 October 2001, whichever is earliest. No other deadlines exist except for Departmental Citizen Charter processing targets. Area Offices initially issued monitoring letters in spring 1999. ABIS regulations indicate that SERAD will monitor agricultural businesses generally for a period of five years from completion of each improvement works.

Source: Audit Scotland

- 2.3 A pre-requisite to applying for a grant was the preparation of an independent Resource Audit setting out the assets and financial health of the business and the opportunities for development. Grant applications were only acceptable for projects identified as priorities for eligible business improvement in the Resource Audit and each applicant was required to state clearly the financial and other benefits expected from the project. On examination of a sample of ABIS cases, Audit Scotland found that projects included in approved applications had been included in Resource Audits (Case Study A).

Case Study A

Farm: 200+ hectare Dairy Farm. First Resource Audit undertaken in 1995 and updated on the introduction of revised ABIS terms.

<i>1st Resource Audit Priorities</i>	<i>Updated Resource Audit Priorities</i>	<i>ABIS Applications</i>	<i>ABIS grant paid</i>
1. General Purpose Shed	1. Water Supply	Apr 96 Re-seeding	£1,731
2. Dutch Barn	2. Fencing	Nov 96 Fencing	£699
3. Calf rearing shed	3. Re-seeding	Feb 97 Re-seeding	£1,150
4. Water Supply System	4. Ditch cleaning	Mar 99 Re-seeding	£1,421 *
5. Fencing	5. Drainage	Mar 99 Ditching	£438 *
6. Re-seeding	6. Water troughs		
7. Ditch Cleaning			

* Claim not yet submitted. Grant payable is based on amount of SERAD approval

- 2.4 The Department reviewed expected benefits before approving the application. Claims for payments of grants were supported by documentary evidence and were subject to inspection. The Department required grant claimants to submit vouchers (either invoices or timesheets for work undertaken using the farm's own resources) as evidence that work on the project attracting a grant had actually taken place and been paid for. Professional and technical staff in the Department's Area Offices were required to check the adequacy of supporting documentation and to carry out a site inspection of at least five per cent of claims. As a result of examining case files Audit Scotland found that evidence was available to support grant claims. Each of the Area Offices visited by Audit Scotland had procedures in place to ensure site inspections for at least five per cent of grant claims.

2.5 Farmers have two years after approval of their application or until 31 October 2001 (whichever is earlier) to complete the project and claim grant. The European Commission rules prohibit the Department from committing more European funds than the total available in the Single Programming Document. As each grant approval committed funds from the ABIS budget, the Department introduced procedures to monitor the actual take-up of commitments by writing to each farmer three months before the end of the two year post-approval period allowed for making claims.

The Department took action when arrangements for monitoring the expected benefits of ABIS fell behind schedule

2.6 The Single Programming Document detailed performance monitoring expectations and set out a range of key indicators against which the success of the scheme would be measured (Figure 8). The aggregated information on benefits from individual projects will be used by the European Commission as part of an ex-post evaluation of Objective 1 assistance in Autumn 2001. The evaluation will involve ascertaining that the objectives initially determined have been achieved and/or making a judgement on any differences observed in relation to these objectives.

Figure 8: Key indicators for monitoring ABIS

- Total earned income per business at start and completion of programme.
- Increase in agricultural income per full-time equivalent person at start and completion of programme.
- Increase in non-agricultural earned income per person at start and completion of programme.
- Performance of farms in the scheme compared with non-scheme farms using the indicators above.

Source: Single Programming Document for Highlands and Islands Objective 1 area approved by the European Commission on 29th July 1994 Priority 4 Measure 3

2.7 The Department's internal ABIS guidance reinforced the need to monitor the expected benefits from assisted projects in order to establish whether the scheme was contributing to the overall objectives of the Objective 1 Programme. More generally, monitoring project benefits was also expected to help establish which types of measures proved most effective in helping improve the efficiency of agricultural businesses. The

guidance required that all grant recipients be contacted annually to find out if the projects' expected benefits had been achieved.

- 2.8 The Department required Area Offices to agree farmers' expected project benefits with them as part of the approval process whilst Headquarters were to monitor whether these expected benefits were being achieved. By December 1998 the Department recognised that pressure of other work meant that monitoring of ABIS cases completed prior to December 1997 was not proceeding as expected. As a consequence they took action by transferring responsibility for monitoring the expected benefits of projects from Headquarters to Area Offices.
- 2.9 Audit Scotland found that Area Offices had adopted different approaches to agreeing the expected project benefits with grant recipients. Prior to transfer of monitoring responsibility, three of the Area Offices visited by Audit Scotland were expressing expected benefits in general terms, such as reduced farm labour or improved quality of livestock. The fourth Area Office visited expressed project benefits as a numerical value such as financial savings achieved or increased weight gain in livestock.
- 2.10 In May 1999 the Department's Headquarters required Area Offices to write to some grant recipients to agree more quantifiable benefits. One Area Office responded by drawing up a list of suggested quantifiable benefits for each type of investment project eligible for ABIS grant support. Other Area Offices subsequently used this list to revise the benefits they had agreed in previous applications and in approving new applications. At the time of Audit Scotland's visits to Area Offices in April 2000 not all grant recipients had been asked to confirm whether the expected benefits have been achieved (Case Study B). However, the Department told Audit Scotland that by early June they had agreed revised benefit measures with all farmers and that monitoring is now up-to-date.

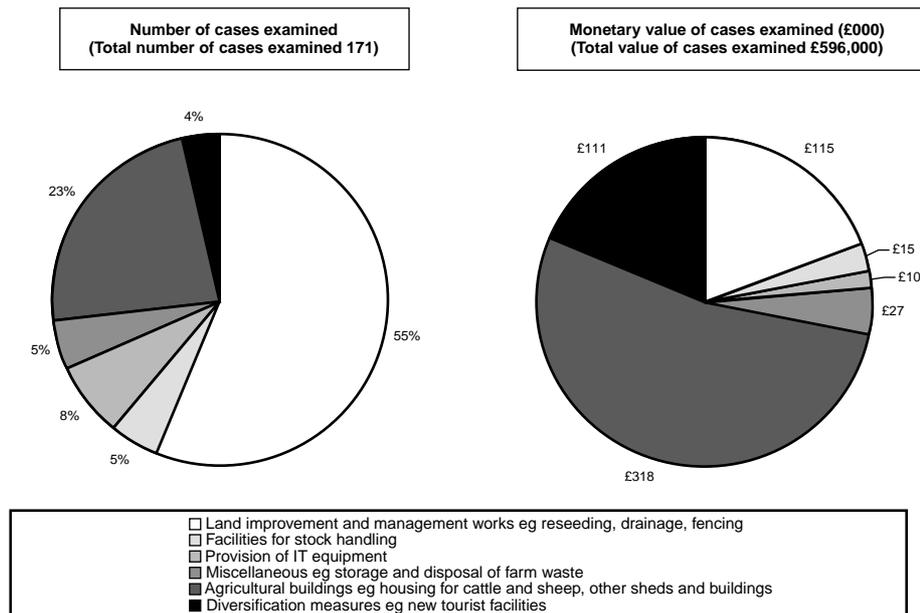
Case Study B

On assuming responsibility for monitoring the achievement of expected benefits, one Area Office decided that due to pressure of other work they would write to approximately half of ABIS grant recipients in May 1999 asking that they agree revised benefits and the remainder one year later. A typical example of how revised benefits were agreed is shown below.

Farmer claimed £1,029 in June 1998 for work on a 475m fencing project which was expected to provide some savings on labour and reduce stock losses. The Area Office wrote to the farmer on 17 May 1999 requesting that more quantifiable targets be agreed and suggesting labour savings of two hours per 100m of fencing per annum. The farmer replied on 21 May 1999 indicating that he accepted the revised targets and confirming that the benefits had been achieved.

- 2.11 In September 1999 the Department produced an analysis of the different types of projects assisted under ABIS as part of their consideration of how best to distribute remaining funds available (see paragraphs 2.27 to 2.31), but they have not yet analysed the information they have gathered on the benefits gained from the different types of projects assisted. Audit Scotland examined a random sample of 171 ABIS projects at four Area Offices to determine which improvement works were the most popular and what benefits were expected to accrue. Over half (55 per cent) of projects involved land improvement and management works such as reseeding, drainage and fencing. However these projects were responsible for only 19 per cent of the total maximum grant payable (£115,000 out of £596,000 maximum grant payable in the sample examined). Capital intensive works such as the construction of new agricultural buildings - whilst fewer in number (23 per cent of the sample examined) - received more grant support per project (£318,000 or 55 per cent of the maximum grant payable in the sample) (Figure 9). In respect of expected project benefits, Audit Scotland found that the range of typical benefits agreed with farmers was generally in line with the list of improvement measures produced by the Department (Appendix 2).

Figure 9: Analysis of ABIS expenditure by project type



Note: The sample examined comprised cases where improvement works had been completed and grant claimed and where applications had been approved but no claim had yet been submitted. For the latter cases Audit Scotland assumed that claims will be made up to the maximum value approved by SERAD.

Source: Audit Scotland analysis of sample cases

The Department met their Citizen Charter targets until the scheme was revised

2.12 The Department use Citizen Charter targets for all their grant subsidy schemes, including ABIS, to monitor the quality of service they provide. The targets include times for the processing of applications, claims and correspondence. According to the Department, during 1997 and 1998 they achieved over 90 per cent compliance with all targets for ABIS but in 1999 performance on targets for processing applications fell. The Department considers that the decline in performance in 1999 reflects delays due to the large upsurge in applications received (Figure 10).

Figure 10: Performance against Citizen Charter processing targets

Administrative Procedure	Processing target (period from receipt)	Number of cases processed	Number within target	Percentage within target
1997-98				
Approval of application to carry out a Resource Audit	14 days	157	151	96
Payment of claim for reimbursement of cost of Resource Audit	6 weeks	175	160	91
Approval of application for eligible works	4 weeks	1,197	1,161	97
Payment of claim for eligible works	3 months	1,063	1,058	94
1998-99				
Approval of application to carry out a Resource Audit	14 days	122	119	98
Payment of claim for reimbursement of cost of Resource Audit	6 weeks	122	120	98
Approval of application for eligible works	4 weeks	906	869	96
Payment of claim for eligible works	3 months	1,067	1,022	96
1 April to 30 September 1999				
Approval of application to carry out a Resource Audit	14 days	216	191	88
Payment of claim for reimbursement of cost of Resource Audit	6 weeks	55	54	98
Approval of application for eligible works	4 weeks	275	209	76
Payment of claim for eligible works	3 months	179	171	96

Source: Rural Affairs Committee 6th Report 1999 Interim Report on the Agricultural Business Improvement Scheme

Management information on ABIS provided sound control of grant payments but was less useful when a clear picture of the upsurge in activity was required

- 2.13 The Department held manual files recording progress with individual ABIS applications and claims. They also maintained two computer-based systems: a record of ABIS grant applications and approvals maintained by Area Offices, and a Headquarters record of grant approvals and claim payments. The two sets of records were not electronically linked and information was only available through interrogation programmes controlled by Headquarters staff. The systems in place provided the Department with sufficient information to control the grant scheme.
- 2.14 The Department realised that the value of applications received in September/October 1999 greatly exceeded the funds available, though they did not know precisely to what extent. They therefore took the view that identifying the precise extent of the excess was unnecessary in approving grants worth £2 million.

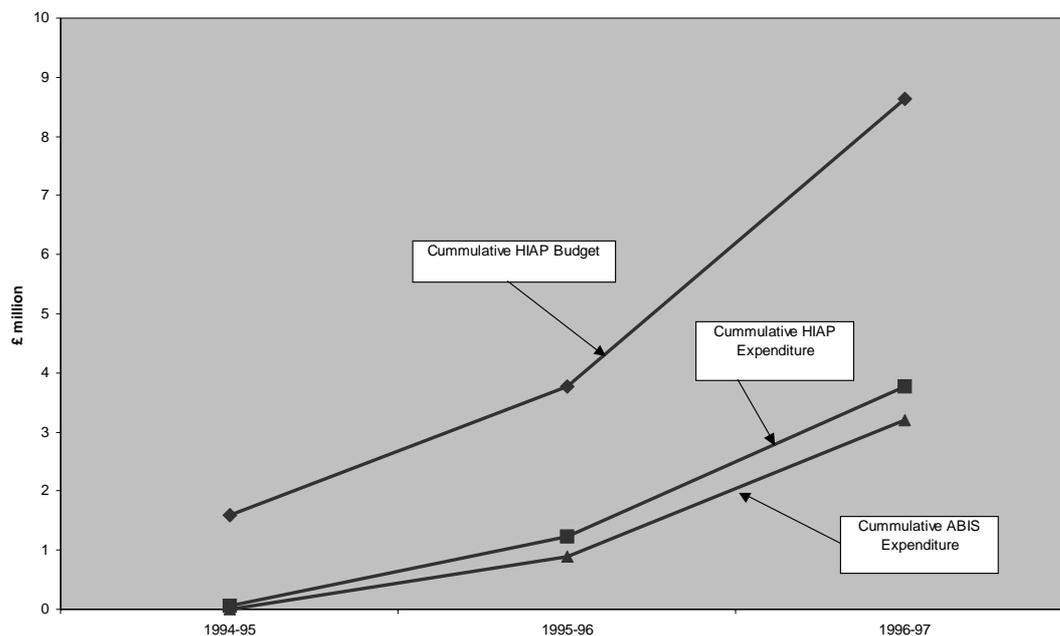
- 2.15 The Department told the Rural Affairs Committee that they estimated that the cost of project applications submitted in September and October 1999 totalled some £22 million. The Department were, however, aware that the estimate would be overstated because they had not isolated applications which might be ineligible or exceeded the £40,000 cap on grant payable. Audit Scotland found that the information held by the Department at the time of their investigation was insufficient to allow an accurate estimate of the degree of uncertainty in the Department's earlier evidence to the Rural Affairs Committee. But a broad analysis of available information indicated that ineligible applications represented a value of £5-6 million.

How the scheme was revised

Expenditure on ABIS in the early years fell short of expectations

- 2.16 The Department monitored the take-up of HIAP against trends in expenditure and commitments. They found that expenditure for the first two full years of the programme fell short of their provision by 53 per cent (Figure 11). Over the same period the level of committed expenditure on ABIS (i.e. grants paid plus unclaimed grant for approved projects) was £6.2 million, some 34 per cent of the indicative £18.4 million budget covering ABIS initially set for the five years of HIAP.

Figure 11: Cumulative HIAP expenditure against budget 1994-95 to 1996-97



Note: HIAP was introduced on 31 December 1994. No expenditure was incurred on ABIS improvement measures until April 1995.

Source: SERAD

Discussions on revisions to ABIS began in 1996

- 2.17 The Department recognised that the slow take-up of ABIS in its early years posed two risks that they needed to address. A lower than anticipated level and value of applications meant that farmers were not attracted to the scheme and therefore scheme objectives might not be achieved. Also, lower than expected expenditure meant that over time the UK might not maximise the available matching allocation from the EC budget.
- 2.18 In the light of these risks the Department sought the views of farmers and their representatives on potential changes to the terms of the ABIS scheme which would make the scheme more attractive. The Department told Audit Scotland that these discussions began towards the end of 1996. Contacts were informal but Audit Scotland's discussions with groups representing the agriculture community confirmed that they had been consulted and were satisfied that the Department had taken their views into account.

Revised terms were approved by the European Commission in December 1997

2.19 The Department could not implement revisions to ABIS unilaterally. Because ABIS was part of the HIAP, any changes to scheme rules had to be approved by the EC. Changes to scheme rules also had to be approved by Ministers, the Treasury and by Parliament through secondary legislation. The key steps necessary to introduce revisions to ABIS are set out in Figure 12.

Figure 12: Chronology of steps necessary to revise ABIS

- Discuss revisions with key stakeholders.
- Consultants' mid-term evaluation of the Highlands and Islands Objective 1 programme.
- European Commission agree revisions to ABIS.
- Agriculture Minister approves revisions.
- Treasury approve revisions.
- HIAP Amendment Regulations in force.

Source: SERAD

2.20 Although the Department and farmers' representatives agreed on the changes necessary to make the scheme more attractive, the Department could not submit these to the EC for approval until an interim assessment of the Highlands and Islands Objective 1 Programme was complete. In May 1997, as part of the Objective 1 interim assessment, consultants produced an interim assessment report which identified a number of reasons why the take-up of ABIS was half of that expected. The consultants recommended that ABIS should be retained with a lower budget and that the scheme should be revised to promote uptake (Figure 13).

Figure 13: Consultants' findings on ABIS from the Interim Evaluation of the Highlands and Islands Objective 1 Programme

Recommendations:

1. Retain ABIS but reduce budget allocation to £9 million.
2. To promote uptake:
 - Increase intervention rates
 - Increase limit on grants per farm, using the business assessment to ensure that farms do not become over indebted
 - Additions to types of investment e.g. farm computers, stock improvement
 - Allow a second resource audit but at the expense of the farmer
 - Link training aspects to vocational training in business (Priority 1 new measure).

Source: SERAD Highlands and Islands Objective 1 Programme Intermediate Assessment

2.21 The Department submitted proposals for revised terms for ABIS to the EC in September 1997. The submission highlighted the lower than expected level of ABIS activity as a key factor in the case for revising ABIS and noted the involvement of farmers' representatives in developing proposals for a revised scheme. The submission also highlighted how a downturn in circumstances surrounding agricultural businesses had left farming in the Highlands and Islands in a fragile state which lessened the case made by the consultants for reducing the ABIS budget. The EC approved the Department's proposals for extending the range of projects eligible for grant, increasing the level of assistance available and changing the limit of grant available to any single farming business from £20,000 to £40,000, in December 1997.

The revised ABIS terms were introduced in April 1999

2.22 The Department did not formally outline the steps necessary to progress the introduction of the revisions to ABIS although they did set a target completion date and monitored implementation through their annual Departmental Plan. The Department told Audit Scotland that ABIS was a small scheme and therefore they considered the revision of scheme terms was unlikely to have a major impact and was consequently a lower priority. In these circumstances they did not consider that any risks were significant enough to warrant formal project management and contingency planning of the implementation process.

- 2.23 The Department have identified a number of factors that inhibited progress towards implementing the revisions to ABIS:
- **The Government's Comprehensive Spending Review** ran from June 1997 to July 1998. The Department told the Rural Affairs Committee that during the period of the review they could not introduce any new spending commitments. Consequently the Department could not gain Ministerial and Treasury approval for the revised scheme until June and July 1998 respectively.
 - **Other negotiations with the EC.** During 1998 the Department were also involved in negotiations on changes to programmes supported by the EC. One of the changes being negotiated was to include the cost of converting redundant farm buildings into rented accommodation as eligible for EC funding. The Department identified such a change as a useful enhancement to ABIS and delayed finalising the revised ABIS criteria until the EC granted approval in September 1998.
 - **Conflicting priorities.** During the Autumn of 1998 the Department also faced extra work from a number of initiatives which went beyond their normal workload, such as a more general review of EC structural funds and crises in the farming industry arising from falling prices (for beef and lamb) and increasing costs.
- 2.24 The Department considered that their on-going dialogue with farmers' representatives on a range of issues provided a suitable mechanism to answer any questions that arose on the progress towards a revised ABIS scheme. Audit Scotland's interviews with the Department's own Area Offices and with farmers' representative groups (such as the National Farmers Union of Scotland) suggested that the mechanism used by the Department did not meet stakeholders expectations for being kept informed of developments, particularly on the likely timing of a revised scheme.
- 2.25 In March 1999 the Minister approved proposals to re-allocate £2.7 million of the HIAP budget. The change recognised that the level of expenditure commitments on HIAP (including ABIS) was less than half the budget available for the programme. The Department's contacts with the farming industry also indicated that, even with the improvements to be introduced under the revised ABIS scheme, the take-up of grants was unlikely to increase significantly to take up the full budget.

- 2.26 Legislation implementing the revisions to ABIS (the Highlands and Islands Agricultural Programme Amendment Regulations 1999) came into operation on 31 March 1999. At that stage the Department issued a revised explanatory leaflet on ABIS and issued revised desk instructions to their Area Offices for administering the revised scheme. The Area Offices told Audit Scotland that the revised instructions were sufficient to allow them to introduce the revised scheme without difficulty. Where problems over interpretation of the revised rules arose, the Area Offices said that these were generally resolved through advice from Headquarters.

The Department reacted to an upsurge in ABIS applications by suspending approvals, changing procedures and introducing prioritisation

- 2.27 In July 1999 the Department first became aware of an increase in ABIS activity. At that stage, managers in each of the Area Offices noted a general increase in farmers' requests to commission Resource Audits which suggested an increase in the number of project applications might follow. The Department therefore imposed a moratorium on processing ABIS applications in order to take stock of the scale of the increase in resource audits and the likely impact. The moratorium lasted from 31 August to 9 September 1999 and led to the Department identifying a significant increase in project applications, which they considered required careful monitoring. The Department consequently changed their procedures by transferring responsibility for approving applications from Area Offices to Headquarters.
- 2.28 The upsurge in applications in September and October 1999 forced the Department to prioritise applications. Headquarters' draft list of priorities (Figure 14) was drawn up initially in the light of policy priorities, which they identified at that time. The proposals were subsequently discussed with Area Offices and with farmers' representatives. The Area Offices visited by Audit Scotland said that there was broad agreement among their managers that the priorities identified provided the greatest potential benefit. In particular, they supported the high priority awarded to IT projects. The managers who were interviewed considered that improvements in IT would provide farmers with better information on how their businesses were developing and, in the longer term, would allow more efficient processing of claims for all grant schemes operated by the Department.

Figure 14: The Department's proposed priorities for processing ABIS applications

1. Resource Audits.
2. Information Technology; alternative agriculture production; conversion of redundant farm buildings for residential letting; mobile sheep fanks and dippers.
3. Self standing systems for the storage and disposal of farm waste.
4. Cattle handling facilities; fixed fanks and dippers.
5. Cattle buildings with integral slurry storage facilities.
6. Other housing for livestock.

Source: SERAD News Release 1 October 1999

- 2.29 The Department informed farmers of their proposals on prioritisation through a press release on 1 October 1999. They also held a public meeting to discuss the proposals on 23 October. Farmers' representatives told Audit Scotland that farmers generally voiced significant opposition to the principle of limiting demand through prioritisation.
- 2.30 The Department began applying priorities to applications in November 1999. Because their computer records did not initially contain sufficient detail on the type of project to be assisted, prioritising meant sifting through application files looking for projects to satisfy priority 1, then sifting for priority 2 and then priority 3. A cumulative total of commitments arising from prioritisation were maintained and by the time priority 3 applications had been approved only £200,000 of the ABIS budget remained. The remaining budget was allocated to a small number of specific cases where the Department knew the farmer had incurred significant preparatory costs.
- 2.31 All ABIS funds have now been committed. Farmers have up to two years from the date of their application approval or 31 October 2001 whichever is earlier to decide whether or not to proceed and, if so, to complete the necessary works and to claim grants.

There were a number of reasons for the significant upsurge in applications in September and October 1999

- 2.32 The Department were confident that the revisions to the ABIS scheme were unlikely to have a major impact and were consequently a lower priority. Although the revised terms were introduced in March 1999 and all applications had to be submitted to the Department by 31 October, and approved by 31 December, the Department told Audit Scotland that their on-going contact with the agriculture industry provided no indication of any significant increase in ABIS applications.

- 2.33 In the event the number of applications recorded by the Department increased marginally between April and August 1999 and significantly in September and October 1999. The Department told the Rural Affairs Committee that the increased number of applications might have resulted from the increase in the level of grant, or might have been a reaction by farmers to the imminent end of the scheme. But they could not provide any conclusive evidence on the causes of the late upsurge in applications.
- 2.34 Using information held on the Department's computer records, we considered three possible causes of the late upsurge. Audit Scotland found:
- **The average number of project applications per farming business increased.** A farm business could submit any number of applications for different projects provided their resource audit had recognised the projects involved as potential benefits to the business. Audit Scotland's analysis showed that in the period prior to April 1999 farming businesses involved in the scheme submitted applications on average at a rate equivalent to one every year. For the period following the introduction of revised ABIS terms the equivalent average rose to one application every two months. This may support the Department's view that farmers were concerned that the scheme was coming to an end and consequently submitted more applications than they were likely to carry out in order to ensure some benefit from the scheme before it ended (Case Study C).

Case Study C

Medium sized unit of 700 hectares farming some 200 suckler cows, 700 fattening lambs and 100 acres of barley. Resource Audit was prepared in August 1999.

<i>Resource Audit Priorities</i>	<i>Applications</i>	
	<i>Date received</i>	<i>Estimated cost of works</i>
1. New water supplies	29 Oct '99	£4,500
2. Restoration of pond	31 Oct '99	£1,000
3. 200 tonne feed Store		
4. Hardstanding		
5. Cattle shed	28 Oct '99	£43,500
6. Dutch Barn		
7. New midden		
8. Alterations to shed	31 Oct '99	£25,559
9. Cattle handling system	28 Oct '99	£6,800
10. 2,000m ring fence off roadway	31 Oct '99	£2,800
11. New workshop		
12. Re-roofing steading		
13. New ventilation in steadings		
14. Sheep handling system		
15. 50m of dyke rebuilding		
16. 5,000m of fence renewal		
17. 300 acres of re-seeding	31 Oct '99	£18,000
18. Upgrade effluent disposal facilities	28 Oct '99	£2,500
19. IT equipment	31 Oct '99	£1,162

The potential total grant payable under the measures applied for amounted to some £50,000 although the farmer would have been constrained to the maximum grant payable under the scheme of £40,000. In the event the Department's prioritisation exercise meant that only a new effluent tank to upgrade effluent disposal facilities and IT equipment was approved.

- **The average value of applications increased after April 1999.** The revised scheme increased the cap on the amount of assistance any farming business could receive under ABIS from £20,000 to £40,000 and introduced additional capital works into the list of eligible projects (Case Study D). Analysis by Audit Scotland found that the average project cost per application for grant prior to April 1999 was £7,091 and after that date the figure was £8,753. The average proportion of project costs met by grant rose from 37 per cent under the original terms to 45 per cent under the revised terms. This may also support the Department's view that the increase in the level of support available was a significant factor in the upsurge in the value of applications.

Case Study D

Farm: 60 hectares farming suckler beef and sheep.

Between February 1996 and December 1998 the farmer successfully applied for grants totalling some £7,000 for re-seeding, fencing and building works projects. In June 1999 the farmer submitted further successful applications for grants relating to the construction of a slatted court. These increased the amount of grant payable to the farmer to £27,000.

- **The period between resource audits and the submission of applications increased after April 1999.** Farmers' representatives said that a significant factor in the upsurge of applications was that many farming businesses were holding back applications until the scheme was revised (Case Study E). Audit Scotland's analysis found that the average length of time between the approval of a resource audit and a grant application prior to April 1999 was three months. For grant applications submitted after that date, the average length of time was 10 months. This may indicate that farmers were holding back applications until the revised terms were available.

Case Study E

The farmer first submitted an application for grant assistance towards the cost of constructing a slatted court in October 1998. The Area Office wrote back to the farmer saying that his application could not be considered without the appropriate planning consent.

The application for assistance under the original ABIS terms was withdrawn in April 1999 and on the same day the farmer submitted an application for the same project complete with planning consent under the revised terms. The Area Office approved the application later that month.

The Department are negotiating a new scheme similar to ABIS

- 2.35 Although the Highlands and Islands Objective 1 designation ended on 31 December 1999, the European Commission have recognised the region's particular and unique structural problems. In March 1999 the European Council of Ministers agreed to a Special Programme for the region. A new committee (the Rural Development Regulation Plan Team), involving various public sector organisations and representatives from the National Farmers' Union, the Scottish Crofters Union and the Scottish Landowners' Federation, as well as the Scottish Executive, has been created to develop the agricultural aspects of the Special Programme covering the period to 2006.

- 2.36 One measure identified by the Plan Team is designed to support investment in agriculture holdings, diversification and co-operation. The proposed measure will provide EAGGF assistance, subject to EC approval, to allow farmers to upgrade existing facilities or diversify to provide alternative sources of income.
- 2.37 The proposals for the special programme were submitted to the EC in March 2000. Subject to negotiations with the EC, the Department expect to have approval for the new measure by Summer 2000 for the new scheme to be operating by late Autumn.

Part 3: Conclusions and recommendations

3.1 This part of the report sets out my conclusions and recommendations arising from my examination of how ABIS was administered.

Overall conclusion

3.2 The Department introduced clear guidance on ABIS for its own staff and for potential applicants. The systems for processing ABIS grants, which provided sound financial controls, reflected that:

- the scheme was relatively small;
- assistance was directly related to specific projects identified from independent assessments of the business potential of individual farms;
- the level of funds available for the scheme was pre-determined as part of a much larger European aid programme; and
- the European programme and, consequently, the scheme had a definite end date.

3.3 The action taken by the Department in revising the scheme was in line with their understanding of prevailing circumstances and in accordance with the priority they attached to it. Nonetheless, the introduction of revised terms led to a high level of grant applications, to which the Department was unable to respond because it had not been anticipated. This dissatisfied many clients. The experience of ABIS reinforces the need for the Department to have in place sound procedures to monitor and manage publicly funded schemes.

Monitoring scheme activity

3.4 In the Department's guidance on ABIS, there was provision for monitoring the extent to which the benefits of scheme grants were actually achieved. The guidance recognised that monitoring was essential for analysing which of the grant payments contributed most to the scheme's objectives. It is therefore a source of concern that the monitoring system which the Department introduced was allowed to fall behind schedule. The

Department did not therefore make full use of a potentially valuable source of information on the benefits gained from the scheme in judging priorities when applications eventually exceeded the remaining budget.

- 3.5 I recommend that the Department should ensure that they are complying with monitoring requirements of all schemes particularly those supported by other organisations and that the benefits of such schemes are regularly analysed. This will ensure that the availability of funds from outside sources is not put at risk, and that funds are targeted towards those grant applications which contribute most to scheme objectives.

Management information

- 3.6 The Department should have the necessary information to provide a clear picture of scheme performance and to ensure that grant applications are processed efficiently. Although information was collected on applications, claims and payments, the ABIS system did not link this information effectively. The Department did not have available accurate information on the scale of problems associated with ABIS, particularly the potential value of grant applications received in September and October 1999. This information would have helped the Department to identify priority projects for ABIS assistance when prioritisation was belatedly introduced.
- 3.7 The lack of information led to confusion at Area Offices and disrupted the processing of grant applications in the closing weeks of ABIS. The evidence given by the Department to the Rural Affairs Committee, based on an uncertain value estimate of £22 million for ABIS grant applications in September and October 1999, was inaccurate.
- 3.8 I therefore recommend that all essential information in support of a grant scheme should be recorded and maintained on readily accessible computer records. In particular records should be held in a form which provides the current value of applications received for comparison with available funding and which also allows for automatic sifting of applications in line with any priorities set for a scheme.

The importance of a systematic approach to the introduction of new scheme rules

- 3.9 The Department began discussions on revised guidance for ABIS late in 1996. The revised changes were not finalised until September 1998 and the revised scheme was

not introduced until April 1999. The delay is likely to have had two major consequences:

- farmers, anticipating changes to project eligibility with increased levels of assistance and a higher maximum grant, held back their ABIS grant applications; and
- the revised ABIS scheme was introduced only seven months before applications closed for grant assistance under HIAP. This left ABIS administrators with little time to adjust scheme procedures and to improve the quality of information so as to maximise the benefits available from the remaining level of funding earmarked for the scheme.

3.10 This experience underlines the importance of setting clear plans for introducing changes to grant schemes. Given the complexity of negotiations associated with changes to schemes where a range of internal and external stakeholders is involved, it is essential that steps necessary to implement change are properly identified, and that progress is monitored. I recommend that:

- plans are established for introducing scheme changes which, as a minimum, should include a timetable of events against which progress can be monitored;
- plans for introducing revised scheme terms should include sensitivity analysis setting out contingency plans which, in the event of variations from planning assumptions, can be used to decide how to respond; and
- in the event of changes to the timing of scheme plans all stakeholders should be kept informed.

Managing risks when grant schemes are changed

3.11 The ABIS scheme was revised because of the low level of take-up under the original scheme. The revisions were designed to ensure that the available funds were used to best effect in accordance with the scheme's objectives. The revised scheme was successful to the extent that the number of applications for the new scheme greatly increased. The value of these applications was significantly greater than the funds available. The Department did not receive from the farming industry any indication that the take up of grants would increase significantly. Since, from the information available, the Department did not recognise that the delay in introducing the revised scheme could lead to an influx of claims, they did not foresee that applications would

need to be prioritised with the consequence that many applicants would be disappointed.

- 3.12 I recommend that future plans for the introduction of revised grant schemes should be underpinned by an explicit assessment of the risks. In particular the Department should identify risks based on previous experience in operating grant schemes, especially where schemes have a definite end date. There should be regular communication with stakeholders on the likely impact of changes. Good communications should also provide useful information for assessing and managing risks. Finally, the Department should identify from the outset the types of project which are likely to provide the maximum benefit within a scheme. This will enable applications to be prioritised during the course of a scheme rather than at its end.

Appendix 1

HIAP budget 31 December 1994 to 31 December 1999

	£ Million	£ Million
Original Single Programming Document allocation		23.0
Less:		
Losses through exchange rate fluctuations	(2.5)	
Decommitted and transferred to other Objective 1 programmes	(2.7)	
		(5.2)
Add: Additional funds made available to ABIS November 1999		1.0
Total HIAP Budget		<hr/> 18.8

Benefits expected from ABIS

Improvement Works	Typical Benefits Expected
<p>1. Agricultural buildings</p> <ul style="list-style-type: none"> • Housing for cattle • Housing for sheep • Other sheds/buildings 	<ul style="list-style-type: none"> – Increased liveweight gain in cattle of 25kgs per annum – Savings of 10 manhours per 10 cattle due to improved feeding method – Two weeks reduction in fattening time – 15% reduced mortality rate at lambing – 2% reduced mortality rates of lambing ewes – 10% saving in fodder losses – 15% reduction in machinery maintenance costs and prolonged machinery life
<p>2. Facilities for stock handling: sheltering/feeding out-wintered stock</p> <ul style="list-style-type: none"> • Fanks and dippers • Stock handling facilities for cattle • Hardstandings for livestock 	<ul style="list-style-type: none"> – Saving of two manhours per 10 sheep due to better handling facilities – Lambs ready for slaughter two weeks earlier due to reduced stress – Savings of two manhours per cow due to better handling facilities – Saving of 2% in feed wastage – Savings in manhours of one hour per five cattle or one hour per 10 sheep – 10m² per animal saving in reseeding costs due to poaching
<p>3. Systems for storage and disposal of farm waste</p>	<ul style="list-style-type: none"> – Savings of one manhour per cow due to more efficient systems – Savings in fertiliser of 25kgs per hectare
<p>4. Land improvement/management works</p> <ul style="list-style-type: none"> • Reseeding and reconditioning of inbye land • Drainage works 	<ul style="list-style-type: none"> – Improved liveweight gain in cattle of 0.2kgs per week – 10% increase in lamb crop due to better flushing in autumn – Reduced fertiliser costs of £25 per hectare – Increased fodder yield of one tonne per hectare of hay and five tonnes per hectare of silage – Improved liveweight gain in cattle of 0.1kg per hectare – 5% increase in lamb crop due to better quality autumn grazing – Saving in winter feed costs due to extended summer grazing by £10 per cow and £1 per ewe

	<ul style="list-style-type: none"> • Fencing of inbye and hill land • Dyking on inbye and hill land 	–	<ul style="list-style-type: none"> Savings of two manhours per 100m due to better stock control 4% decreased mortality rate in sheep due to better shelter
5.	Supply of utilities such as electricity and water	–	Savings in labour of 50 hours
6.	Diversification measures such as tourist and sports facilities, crafts and retail facilities etc	–	Increased income and employment of between £2,000 to £9,000 per annum
7.	Environmental enhancement measures such as control of bracken, creation of marshlands, small scale tree planting	–	<ul style="list-style-type: none"> Improved grazing and stock control Savings on cost of pheasant rearing Increased bird and other wildlife
8.	Conversion of redundant farm buildings for residential letting	–	Increased income and employment
9.	Alternative agricultural production	–	Diversification and increased income
10.	Provision of IT equipment	–	Increased business efficiency and improved record keeping leading to labour savings of 10 hours per annum

Source: SERAD and Audit Scotland analysis of a sample of cases

Rural Affairs Committee interim report on ABIS: summary of action

Recommended:	An urgent examination of all eligible applications lodged as at October 1999 to provide a more realistic estimate of total shortfall.
Recommended:	The Scottish Executive considers urgently whether additional funding can be provided to meet all eligible applications lodged as at 31 October 1999.
Requested:	The Procedures Committee to consider the circumstances under which Home Civil Service Officials serving current Ministers of the Executive may define administrations prior to 1 July 1999 as “previous”.
Requested:	The Procedures Committee to consider the procedure by which any committee may seek assistance from the Comptroller and Auditor General and in due course, Auditor General for Scotland.
Has already requested that:	<p>The Audit Committee consider the circumstances of ABIS with a view to a possible investigation by the Comptroller and Auditor General and further, specifically request examination of:</p> <ul style="list-style-type: none"> • the experience learned from other schemes that have been relaunched with enhanced conditions • what happened between mid-June 1999 when the first indication of an upsurge was reported and the end of July, when staff were asked to quantify that demand • the feedback given from Area Offices to SERAD HQ on the level of interest in ABIS and the indicators used in its measurement • whether the bottleneck in Agenda 2000 work, in late 1998, could have been predicted and planned for.

Source: Rural Affairs Committee 6th Report 1999: Interim Report on ABIS

Methodology

The methodology for Audit Scotland's examination of ABIS consisted of a number of elements:

<ul style="list-style-type: none"> Discussions with Departmental senior management 	<ul style="list-style-type: none"> To establish familiarity with the history and context of ABIS including its relationship with the Objective 1 Programme To establish familiarity with factors influencing the Department's management of ABIS
<ul style="list-style-type: none"> Reviewing high-level information provided to the Rural Affairs Committee 	<ul style="list-style-type: none"> To determine the robustness of systems used to generate management information
<ul style="list-style-type: none"> Interviewed stakeholders: National Farmers Union of Scotland; Scottish Crofters Union; Scottish Landowners Federation; Scottish Agricultural College) 	<ul style="list-style-type: none"> To determine stakeholders' concerns To consider wider implications of concerns
<ul style="list-style-type: none"> Reviewed Departmental documents, including a sample of grant applications and payment files 	<ul style="list-style-type: none"> To provide supporting evidence for examination findings To provide sample data both quantitative and qualitative analysis
<ul style="list-style-type: none"> Analysed high-level data on budgetary, actual and committed expenditure 	<ul style="list-style-type: none"> To provide contextual and summary information on ABIS and HIAP including their relationship with the Objective 1 programme
<ul style="list-style-type: none"> Visits to four of the Department's 12 Offices covering the Highlands and Islands (out of a total of 18 Area and Sub Offices), responsible for processing over 80 per cent of scheme applications 	<ul style="list-style-type: none"> To review practices and systems and links with performance To validate data held on HQ information system To gather local views on administration of ABIS To examine case files for evidence of processing, monitoring and review.

