

AUDIT COMMITTEE

Tuesday 27 June 2000
(*Afternoon*)

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AUDIT COMMITTEE

11th Meeting 2000, Session 1

CONVENER

*Mr Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

*Nick Johnston (Mid Scotland and Fife) (Con)

COMMITTEE MEMBERS

*Brian Adam (North-East Scotland) (SNP)
*Scott Barrie (Dunfermline West) (Lab)
*Cathie Craigie (Cumbernauld and Kilsyth) (Lab)
*Miss Annabel Goldie (West of Scotland) (Con)
*Margaret Jamieson (Kilmarnock and Loudoun) (Lab)
*Lewis Macdonald (Aberdeen Central) (Lab)
Paul Martin (Glasgow Springburn) (Lab)
Euan Robson (Roxburgh and Berwickshire) (LD)
*Andrew Wilson (Central Scotland) (SNP)

*attended

THE FOLLOWING MEMBER ALSO ATTENDED:

Mr John Munro (Ross, Skye and Inverness West) (LD)

WITNESSES

John Graham (Scottish Executive Rural Affairs Department)
Jan Polley (Scottish Executive Rural Affairs Department)
Andy Robertson (Scottish Executive Rural Affairs Department)

CLERK TEAM LEADER

Callum Thomson

SENIOR ASSISTANT CLERK

Anne Peat

ASSISTANT CLERK

Sean Wixted

LOCATION

The Chamber

Scottish Parliament

Audit Committee

Tuesday 27 June 2000

(Afternoon)

[THE CONVENER *opened the meeting at 14:04*]

The Convener (Mr Andrew Welsh): Welcome to this meeting of the Audit Committee. I have received apologies from Paul Martin and Euan Robson. Are there any other apologies?

Members: No.

The Convener: I seek the committee's agreement that we go into a short private session for items 2 and 5, which are on internal committee business and our response to the written agreements on the format of accounts and powers of direction that were sent to us by the minister. Do members agree to that?

Members *indicated agreement.*

14:05

Meeting continued in private.

14:20

Meeting resumed in public.

Format of Accounts

The Convener: I call the committee to order. I seek the committee's agreement to what we have been discussing. First, I have been asked to write to the minister saying that the committee is content for the Scottish Executive to follow the template that has been recommended by the minister for the preparation of accounts for 1999-2000. Following that exercise, the committee can engage in detailed discussion for the 2000-01 accounts, which will be the first to involve a budget that has been set by the Scottish Parliament.

Secondly, I shall write to the minister reiterating the committee's view that there is no reason why the private finance initiative threshold should be included. Thirdly, as a basis for and aid to future discussion, we will seek further advice from professional bodies regarding the format of accounts, which will educate the committee's view on that matter. Fourthly, I have been asked to request a shadow set of accounts containing percentages, which the committee finds helpful.

I ask formally for the committee's approval of the written agreement on the form of accounts and

powers of direction. Are we agreed?

Members *indicated agreement.*

The Convener: Thank you. We move now to the evidence-taking session.

Agricultural Business Improvement Scheme

The Convener: I welcome John Graham, the head of the Scottish Executive rural affairs department, Jan Polley, the head of the agricultural food and EU policy co-ordination division, and Andy Robertson, the chief agricultural officer. Mr Graham does not intend to make an opening statement, so we can move straight into questions.

Today we will examine the operation and revision of the agricultural business improvement scheme, based on the Auditor General's report. I understand that the Scottish Executive rural affairs department has already agreed to the facts that are contained in the report.

John Graham (Scottish Executive Rural Affairs Department): That is correct.

The Convener: The committee will ask questions on two main areas. First, we will ask about the lessons that can be learned from the department's experiences in planning and implementing revisions to ABIS. Secondly, we will ask what can be done to manage increases in levels of interest in grant schemes. That is an important issue. The rural affairs department took two and a half years—from late 1996 until March 1999—to revise ABIS, which left farmers only seven months in which to submit applications for assistance under the revised terms before the scheme was closed to new applicants.

I draw attention to paragraphs 2.17 and 2.18 of the ABIS document, which show that the department recognised in 1996 the need to improve uptake of ABIS. It took another two and a half years to revise the scheme. Did that delay place the scheme's overall success at risk?

John Graham: We explained in paragraph 2.23 the main reasons for the delay of two and a half years. As to whether the delay placed the objectives of the scheme at risk, we argue that we spent all the provision that was available for the scheme on projects that were judged by our ministers—their judgment was endorsed by our usual consultees—to be of high priority in relation to the objectives of the scheme. I do not accept that the scheme was a failure or that it was delivered unsatisfactorily because of the delay. Clearly, the delay caused a fair amount of uncertainty among farmers and the unforeseen rush of applications near to the expiry date of the scheme caused considerable handling difficulties in the department, but we delivered assistance for a range of high priority projects and spent the money effectively.

The Convener: You focus on your department, but surely success includes the effects on customers. Do the effects on the farmers who were affected by your department's decisions and by the delay constitute a success?

John Graham: As I said, I accept that the delay in putting in place the revision to the scheme produced a degree of uncertainty among farmers and that it caused some farmers to incur costs in respect of preparation for applications that proved to be abortive.

The Convener: I have the feeling that "a degree of uncertainty" might not be the way some farmers would put it. Paragraph 2.22 tells us that the department had no formal plans to monitor the introduction of revisions to ABIS. It tells us that the scheme was so small that the department was convinced that the changes would have limited impact. The department was clearly mistaken about the impact, so do you agree that the changes should have been managed in a more structured way?

John Graham: The word "formal" is significant in the paragraph to which you refer. The objective of revising the scheme was included in the department's planning process—it appears in the plans for the relevant division in the department. The original target dates were clearly not met, but the process was not unplanned.

The Convener: The underestimation was a mistake, though. What guarantees can you give that similar mistakes will not happen in future?

John Graham: That is a difficult issue. The view that we took of the likely level of spend during the remainder of the scheme and of the likely effects of the revision of the scheme was shared by everybody we spoke to when the revisions were under consideration. The unanimous view was that, because of the financial difficulties that faced the farming sector, it was highly unlikely that farmers would have the resources to produce their share of the expenditure for projects. We expected some increase in applications towards the end of the scheme and we planned accordingly. It is difficult to try to estimate the likely level of interest in a scheme as it approaches its expiry date. Perhaps in such circumstances we ought to consider something more structured in the way of market research, to try to get a better feel for the likely level of spend.

We did not—as I said—base our assessment only on the department's view. Our view was shared by the National Farmers Union of Scotland and the Scottish Crofters Union—the people with whom we were discussing revision of the scheme.

The Convener: Do you intend to use market research?

John Graham: We have not decided. It is an option that we should perhaps examine, if we find that we are faced again with the possibility of revising the terms of a scheme as it approaches its expiry date.

The Convener: Given your experience of revising ABIS, are you still convinced that making changes to grant schemes during their limited life spans is an effective way of assisting the farming industry?

John Graham: Ministers' judgments were based on the level of uptake of the scheme during its first two years. Nothing happened in the third year of uptake to change that judgment. The judgment was that we faced a substantial underspend on the scheme and ministers responded to that in two ways. They moved some resources from the scheme to other schemes that were part of the objective 1 programme in the Highlands and Islands, but which were showing signs of being over-subscribed, for example schemes for assisting aquaculture marketing and processing.

Ministers also decided that the scheme should be revised to make it more attractive. In doing that, they acted on recommendations in an interim assessment report that was produced by consultants, which said that the scheme was likely to be significantly underspent. The report pointed us in the direction of changes that might be made that would ensure that the provision was fully used.

14:30

Miss Annabel Goldie (West of Scotland) (Con): During the revision period, it seems that the agriculture industry in Scotland was—as, indeed, it is still—going through a critical time. Is that accepted by the rural affairs department? Did it influence the department's attitude to the practical implementation of the scheme?

John Graham: The fact that the agriculture industry was going through a difficult time influenced us in a number of ways. That was one of the reasons why it took longer than planned to put a statutory instrument in place, once the necessary Treasury and European Commission clearances for the revised scheme had been secured. We secured those clearances in the autumn of 1998. The resources in the department were diverted into dealing with difficulties such as those that have been described. That led to an announcement by ministers in November of a package of assistance for farmers. The difficulties in the farming industry influenced us to that extent, but they also influenced our judgment of the likely level of response to the changes in the scheme.

Miss Goldie: Is not there a paradox between

the manifest delay in the clarification of procedures during the revision period and the help that was ultimately to go to farmers?

John Graham: Farmers who were interested in applying for the new elements in the scheme were not able to do so until the statutory instrument was put in place in March. They did not receive assistance as early as they might have.

It should be borne in mind that we are talking about capital projects—new buildings for farms and that sort of thing. We are not talking about assistance towards direct incomes, which was the nature of the package of assistance that was announced in November.

Miss Goldie: In the report, paragraphs 2.35 to 2.37 describe developments in a new grant scheme that is similar to ABIS. What lessons have you learned from the revision of ABIS that would help you to design a new scheme? Where do you think priority attention should be focused by the rural affairs department?

John Graham: Ms Polley is closely involved in discussions about the new scheme. I ask her to deal with that question.

Jan Polley (Scottish Executive Rural Affairs Department): Development of the new scheme is well under way, and is being done in partnership with farming organisations, Highlands and Islands Enterprise and local authorities in the Highlands and Islands. Those groups are part of a plan team that has been doing quite a bit of work in the past few months. In the past few days we have submitted the final proposals for the outline scheme to the European Commission as part of the objective 1 transitional programme. We have also been interested in the views of the farming organisations on what they have learned from the process.

We now intend to award projects scores. A feature of ABIS—which was fairly old-fashioned and was not the kind of scheme that we were necessarily running elsewhere—was that any farmer who was deemed eligible got a grant. We tend now to operate slightly more competitive schemes and we will say to farmers in advance that we are likely to prioritise applications and that we will give preference to certain kinds of application. I hope that that will help to manage expectations and to manage the money.

We are also considering the computing side, which was picked up on when the system was put together in the mid-1990s. We had separate computing systems in the area offices and our headquarters. We are ensuring that that is not the case this time and that the computer system is more integrated.

Communication is also being reconsidered. We

realised that we were having a lot of conversations with farming representatives and organisations, but that the messages were not necessarily getting across to farmers. That is partly because we were not transferring the messages and partly because the other organisations were not doing so. As part of the joint plan team's work, we wanted to consider seriously a communications plan for getting information from us or the other organisations to farmers during the months until the new scheme is introduced.

Miss Goldie: Have you had cause to reconsider the application period—which, in the case of ABIS, seemed pretty tight—given that the revisions went on over a period of two and a half years?

Jan Polley: We want to reconsider the precondition of a resource audit of farms being done and that of getting planning permission, for example. Those matters caused complaints last time, and we are still considering them with the plan team.

We are keen that grants will not be provided simply on a one-off basis, but that they should be part of a modernising or restructuring plan for businesses. We will probably replace resource audits with a revised business planning process.

We are also discussing whether people have to go through the whole process of getting planning permission and so on. There are arguments both ways. People might apply for and receive a grant, but if they do not get planning permission, that money could have gone somewhere else. On the other hand, if people apply for planning permission and pay all the money that is required but do not then get a grant, they will have wasted money. We are discussing that with the representatives.

John Graham: One of the problems with the scheme is that, according to European Union rules, we are not allowed to over-commit. In other words, we are not permitted to take a view on how many schemes are likely to proceed and then act accordingly.

Lewis Macdonald (Aberdeen Central) (Lab): Is it fair to paraphrase what you have said as follows: that a fundamental problem with ABIS was the expectation that if someone met the criteria, they got the money?

John Graham: Up to a point last summer, if someone applied and met the criteria, there was plenty of money in the budget and they got the money. One of the questions that faced us when it became clear that there was an upsurge in applications was whether to continue to deal with applications on a first-come, first-served basis or to stand back and try to establish a set of priorities. Ministers decided that the latter was the right action.

The Convener: Jan Polley made a comment about messages not always getting to farmers—Nick Johnston will ask about the information that is given to stakeholders by the rural affairs department.

Nick Johnston (Mid Scotland and Fife) (Con): I will stay on the subject of the line of communication. There seems to be a slight difference of opinion between the rural affairs department and Audit Scotland as to whether your dialogue with farmers was sufficient to relay information on the progress of the revision of ABIS. Farmers' representatives felt that ABIS did not meet their expectations.

Given that it took two and a half years to revise the scheme, do you think that farmers deserved a more open and clear mechanism for keeping them informed of developments?

John Graham: My impression is that during the earlier part of the two and a half years, when we were waiting for the conclusion of the interim assessment report and then for the conclusion of the Government's comprehensive spending review, there was not much uncertainty among our usual contacts—the NFUS, the Scottish Crofters Union and the Scottish Landowners Federation—about where the proposals for revising the scheme stood.

From the time we got the necessary clearances in September, I accept that there was a degree of uncertainty about when the statutory instrument would be implemented. I am afraid that that reflected some uncertainty in our organisation about when it would be possible to complete the necessary work. We were faced with a range of other pressing demands on staff and we decided that those other demands would have to take priority. I have already mentioned the package of assistance that was announced for farmers in November.

At the time, there was also urgent pressure from the islands councils to secure clearance for state aid for the measures that they wanted to take to transport sheep off the islands because of poor weather and the lack of feed for the sheep. That was a high priority that was, at the end of the day, about getting cash directly into farmers' pockets. We took the view that we had to deal with that. We put the month's work that was necessary to complete the statutory instrument and the necessary guidance for ABIS lower down the order of priority. When people asked us when we were going to have the new scheme in place, we had to tell them that we were not sure.

Nick Johnston: I refer you to paragraph 2.25 of the ABIS document. It refers to

"proposals to re-allocate £2.7 million of the HIAP budget."

That included ABIS when that money was reallocated. The paragraph continues:

"The Department's contacts with the farming industry also indicated that . . . the take-up of grants was unlikely to increase".

With the benefit of hindsight, that information was somewhat misguided. Was your consultation sufficiently clear and effective?

John Graham: Our consultation with the representative organisations was very full on that point. The judgment of the representative organisations—I am not blaming them for this, because their judgment was shared by our area office staff, who we tend to rely on because they are closer to farmers—was that farmers were not likely to be in a position to commit their share of the resources. Clearly, that judgment was wrong, which brings us back to what we discussed earlier: are there better ways of ascertaining likely demand in the situation such as that which we faced?

Nick Johnston: I would now like to turn to paragraph 2.29 of the document. It reads:

"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."

Despite the opposition, you went ahead and implemented your proposals. Are you still satisfied with your dialogue with farmers, or would you make changes in future, possibly circumventing the representative organisations? It seems that their channels of communication are not robust enough to get your message down to the grass roots—the farmers.

John Graham: I would be very reluctant to circumvent the representative organisations. However, as I said, we might have to consider other ways of assessing likely take-up in such situations. The opposition to which Nick Johnston refers was to the principle of prioritisation. At that stage, the representative organisations clearly thought that the answer to the problem was simply for the Government to find more money. I do not think that any of them disputed the priorities that we set or said that they were wrong.

14:45

The Convener: We will now consider the department's response to the sudden influx of applications.

Brian Adam (North-East Scotland) (SNP): Paragraph 1.8 of the report shows that ABIS applications increased dramatically in September and October 1999, and paragraph 2.34 provides some analysis of the cause of the upsurge. Do you agree with that analysis? What lessons do you

take for controlling grant applications in future?

John Graham: The analysis in 2.34 and subsequent paragraphs is not conclusive, and we do not claim fully to understand the reasons for the upsurge. It is striking how many applications were received in October, by which time it was clear that the resources for the scheme were likely to be limited and we would have to set priorities.

As for whether we have learned any lessons, if we were faced again with a situation where the number of applications vastly outran the available budget towards the end of the scheme, we would approach it in the same way that we did on this occasion. We would pause, set some priorities in agreement with the main organisations, and try to meet them as far as we could.

Brian Adam: The department told the Rural Affairs Committee that it estimated the value of applications for ABIS grants at £22 million. That figure was regarded as uncertain, and is now known to have been overstated by between £5 million and £6 million. If you had known that at the time, would you have acted any differently in allocating the available resources?

John Graham: No, because we had only £2 million available to spend at that point. As a result, if we had been considering £15 million, £16 million or £22 million worth of applications, that would not have affected the judgment that we reached.

Brian Adam: Paragraph 2.15 shows that the information on the value of applications held by the department was insufficient to allow an accurate estimate to be given in evidence to the Rural Affairs Committee. Similarly, paragraph 2.9 tells us that area offices "adopted different approaches" to the information needed for monitoring schemes. How can you assure us that this scheme and others are fully under control at all times?

John Graham: Although I cannot immediately trace the reference, the report itself makes the point that, at all times, the information that the department had was adequate to ensure proper financial control of the scheme. We accept that, at various points, we were lacking the best management information about the categories of application that were coming in, which goes back to the fact that, as the report points out, we were operating off two different computer systems.

As Ms Polley has said, we have remedied that in the interim and now have a single linked computer system, which, if we were in this kind of situation again, would give the people responsible for the policy of the scheme—the people for whom Ms Polley was responsible—a better handle on what was happening. However, I want to emphasise that, as far as ensuring proper financial control was concerned, we believe that our controls were

sound.

Brian Adam: So you do not believe that you would have inadequate information about the management of the scheme again because you now have a single system that would provide the appropriate management information.

John Graham: That is right.

The Convener: Different area offices seem to have different emphases. How have you improved co-ordination between area offices in implementing policy?

John Graham: Perhaps I could ask Andy Robertson, who is responsible for the implementation of our schemes and the area office network, to say a little about how we handle this general issue.

Andy Robertson (Scottish Executive Rural Affairs Department): As a general principle, we have recently established a network of lead areas in which area offices that are heavily involved in a particular subject take the lead in providing feedback to headquarters about what is happening in a scheme. In that respect, we are getting a very clear picture about what is happening on the ground as opposed to having a more general picture from a range of different sources. One particular office collates that information.

The Convener: Are you satisfied that that is the most effective way of doing things?

Andy Robertson: It is one way of ensuring that a consistent policy is being applied across all offices.

John Graham: From time to time, I visit area offices to hear the staff's comments about how schemes are working. One of the issues that has arisen from those visits and on which we are currently working is about making better online guidance available to staff in those offices to ensure that the latest guidance on the latest scheme is always available on screen.

Margaret Jamieson (Kilmarnock and Loudoun) (Lab): You introduced prioritisation in November 1999, and paragraph 2.30 describes your process for sifting applications to identify cases fitting priorities. That seems an inefficient way of handling applications. You have already pointed out that your computer systems did not talk to each other and were not compatible. What did that mean on the ground to individuals making applications?

John Graham: Although I am not concealing the fact that we had difficulties in handling the situation, I am not sure that those difficulties were evident to applicants on the ground, except that we might have taken a little longer to do things than we would have had the information been

instantaneously available on screen.

Jan Polley: There are things that we were not able to do at the time that we would want to be able to do in future. For example, a huge part of the problem in the autumn was that, as the graph on page 9 of the report shows, there was a huge influx of applications towards the very end. That required manual inputting of information into the computers in area offices. In order to do so, staff had to work out whether applicants were eligible or were below the given threshold for overall grants.

A more flexible computer system would have helped us to check threshold levels instead of having to do so manually. That said, a manual process still occurs before anything can be input into a computer; however, such a system would take some of the labour-intensive work from the process. A single computer system would allow people in headquarters to interrogate that database instead of having to transfer information to a headquarters database, which involves a time delay. In the eight-week period that we are talking about, every day was quite crucial and it would have been helpful to avoid such delays.

Margaret Jamieson: Figure 10 in the report shows that you approved 1,197 ABIS applications in 1997-98 and 906 applications in 1998-99. However, despite increased levels of applications, you approved only 275 between April and September 1999. Why was there such a drop in approvals?

John Graham: That is partly to do with the moratorium on approvals that we introduced for a period in August. Of course, the majority of applications that we approved in 1999 were approved at the end of the year, after priorities had been established and we had assessed all the applications against them. Figure 10 does not include all the cases that we approved in November and December.

Margaret Jamieson: That does not answer my question. In 1997-98, there was a significant number, but we still had over 900 in 1998-99. However, there is a significant drop in April to September 1999.

John Graham: We are comparing a half-year with full years. As I said, there is also the effect of the moratorium.

Margaret Jamieson: I will leave it at that.

The Convener: You are dealing with a highly diverse group of people, scattered throughout the country. If the department gets it wrong, the financial effects are widespread and immediate for the farmers involved. Why did it take a foul-up to revise procedures, for example, for computer systems and monitoring? Can you guarantee that no similar problems are lurking in the system?

Have you ensured, organisationally, that this problem or something similar will not happen again?

John Graham: As Ms Polley explained, we have made various changes in planning the new rural development programme in terms of both computer equipment and consultations. We hope that those changes will improve matters.

I do not think that we can rule out the possibility of finding ourselves again in a position where a scheme is oversubscribed. Some other objective 1 schemes, not in agriculture, were also oversubscribed; forecasting the likely demand for schemes at any particular grant rate will never be an exact science.

The Convener: Have you implemented a system for monitoring and benchmarking your performance, to ensure that it is effective?

John Graham: We benchmark our performance in general terms against the Ministry of Agriculture, Fisheries and Food; that is the obvious comparator. However, it is not always easy to do that in a completely intellectually respectable way. We do not always operate precisely the same schemes. MAFF, for example, had no scheme like ABIS against which we could have benchmarked our performance.

The Convener: Is your organisation satisfied that its system is improving?

John Graham: Yes. I believe that our systems are improving. Our computer system has improved substantially in the interim, and changes such as those that were described by Andy Robertson are improving the administration in the area office network.

The Convener: We will check against delivery.

Scott Barrie has a question on whether the department was ill informed regarding prioritisation of the ABIS applications.

Scott Barrie (Dunfermline West) (Lab): The ABIS scheme objectives are set out in paragraph 1.7, near the beginning of the report. Figure 14, towards the middle of the report, shows the department's priorities in October 1999 for processing future applications. How did you reconcile the two sets of criteria, to ensure the most effective and appropriate use of the limited funds that were available at the time?

John Graham: In deciding what the priorities should be, we were guided, in the first instance, by the consultants' interim evaluation report. The report suggested some of the areas that were not, at that time, covered by the scheme and that the consultants thought would be attractive to farmers and would help to deliver the scheme's objectives. We were also guided by consultations with the

usual representative organisations. Ministers reached their decisions about priorities in the light of those two factors.

Scott Barrie: When you were attempting to come up with the priorities, did you believe that you had information on the benefits that had accrued from different types of previous improvement works? If so, do you feel that that information was used to its best advantage in setting the priorities?

John Graham: If I may say so, there is a bit of a misconception in the report. The report envisages an idealised process under which you consider the experience of the benefits that have been obtained so far, derive from that a best buy or series of best buys, and choose those as your priorities. I do not think that that process would really work in the circumstances that we were in.

For a start, in paragraph 1.7, you will see that there are a number of objectives—in particular, an environmental objective—not just a single objective. Therefore, there is not just a single target at which to aim. Secondly, we do not have a uniform population of farms. Some types of improvement would make a great difference to the income on one type of farm, but would not make much difference to the income and financial position on another type of farm, so the process is not as simple as the report envisages.

15:00

In practice, when it came to making choices about priorities, ministers decided that, as we had introduced the new measure, it was only reasonable to give priority, from the limited funds that were available, to those who were applying for assistance with the new measures. That was the first priority, and it took the lion's share of the fairly limited resources that were available.

Scott Barrie: I want to check that I have understood what you are saying. Does that mean that one of the main difficulties arose because of the substantial number of applications, and that although priorities were set, there had to be priorities within the priorities? Does it mean that the process became quite difficult and that perhaps the priorities were not as much use as they could have been in other circumstances?

John Graham: No. I do not think that I was saying that. My point was that when it came to deciding which applications we would approve last autumn, when resources were tight, we decided to give preference to applications for the types of assistance that were new to the scheme as of March 1999—for example, assistance with information technology. We gave priority to people who were applying for assistance under one of the new measures, rather than to those who were

applying for assistance under one of the measures that had been available since the inception of the scheme.

The Convener: How were you assured that that was the best way to go about things?

John Graham: As I said, we drew on the recommendations of the consultants' interim evaluation report and on the support that those recommendations got from our usual contacts.

The Convener: You are sure that those who needed the priority, who could make best use of it, actually got it?

John Graham: Whether we chose the right priorities is, at the end of the day, a matter of judgment. Those were the priorities that ministers chose, and I have explained why ministers reached the conclusion that they did.

The Convener: One of the problems seems to be that you were operating on two sets of criteria. There seems to have been no system for measuring benefits obtained when deciding priorities. Will there be better monitoring in future, and how will the department achieve that?

John Graham: I will ask Ms Polley to say a little about the monitoring process that is envisaged under the rural development plan. I think that work on that is still going on.

Jan Polley: The process is still going on, so final decisions have not yet been taken. Of course, people will be doing work and receiving grants under the old scheme for the next two years, so the system that we are operating for the old scheme is up to date. The report picked up on two issues. First, the benefits that farmers said that they would get from grants, in some parts of the country, were a bit vague. We tightened up on that. That lesson has been learned, and applies to what is happening now, as well as to the new scheme. Secondly, because of pressure on resources, monitoring of the benefits that people had said they would get had fallen behind a couple of years ago. That was spotted at the time and steps were taken to stop it, so we are up to date on that.

To the extent that things were happening in the system, they were happening a year or two ago and have now been picked up as a matter of course. We should be able to apply what has been learned to the new schemes.

Cathie Craigie (Cumbernauld and Kilsyth) (Lab): That was the point that I wanted to cover, but my questions have been answered.

We have spoken a lot about controls and management. There are lessons to be learned from ABIS and how it has been operated. Can you give an assurance that, should the department find

itself in a position where applications for grants need to be prioritised, it is in a position to identify the priorities that will satisfy the needs of the scheme most effectively?

John Graham: It is difficult for me to offer such an assurance because, in the situation that you describe, decisions about priorities will be a matter of judgment and will be not for me and my colleagues, but for ministers. All sorts of factors could be at work, pointing to particular priorities in particular circumstances.

As I tried to explain to Mr Barrie, although we monitored the benefits of the scheme—that monitoring is now up to date, as Ms Polley said—there was no connection between that and the decision that was reached about priorities, which was made for different reasons to do with the consultants' recommendations and the views of the people that we usually consult on such matters. We could well find ourselves in that position again as circumstances change. The importance of information technology to farmers appeared considerably greater in March last year than it did at the inception of the scheme. That is why it was given priority.

Cathie Craigie: In your evidence and in your past few answers, you have talked about the fact that farmers are not the same and about the need to recognise their individuality. The department must now take that into account when it sets the objectives and criteria for making grants available.

John Graham: Yes. We are well aware that we are not dealing with a uniform population of farmers.

The Convener: IT seems to be blamed for much of the problem. Where was the centre of blame for what went wrong?

John Graham: I am not sure that I accept the word blame.

The Convener: The source of the problem then.

John Graham: The core of the difficulty is the uncertainty about how applicants will react when the terms of a scheme are changed. Nobody predicted the way in which applicants would react to the changes we introduced. That is the heart of the problem.

The Convener: I know that farmers can sometimes be unpredictable, but surely if your department's ears are not close to the ground, nobody knows how farmers are feeling. How do you gather opinion? How do you anticipate the reaction to the proposals that you make? If the applicants react in a totally untoward way, that creates a massive problem. How do you monitor and judge the reaction to changes that you make to schemes?

John Graham: We have regular informal contact with the NFUS, the Scottish Crofters Union and the SLF and, in this case, we drew on those contacts. We have our own area office network. We have a main office in Inverness and sub-offices in places such as Thurso. The staff see farmers every day. A lot of the people who work in those offices have family contacts in the farming business and many of them live in farming areas. Nine times out of 10, they are a pretty reliable source of soft information about things such as how farmers are likely to react to changes. Their views are channelled up through Andy Robertson, the chief agricultural officer. We have all those antennae, but clearly they did not work in this instance.

The Convener: We hope to learn the lessons. You have ways of gathering information, but if they do not work in a crucial situation such as this one, they might not work in others. How can sensitivity to the needs of farmers be improved, and can you improve communication from them about how they will react?

John Graham: The only suggestion I have at the moment is the one I offered at the beginning, which is that, were the situation to recur, we may need to do a more systematic straw poll to get a feel from a selection of farmers about how they would be likely to react if we were to change the scheme in such-and-such a way.

Cathie Craigie: I have a question on the straw poll—pardon the pun. Rural affairs is not an issue in which I am greatly involved. We have debated it quite often in the Scottish Parliament this year and I am still not too sure of its workings. However, surely an organisation such as yours should have some sort of on-going consultation with the people who make applications, to whom it issues grants, rather than something as ad hoc as a straw poll?

John Graham: The prime responsibility for monitoring the scheme lay with the programme monitoring committee based in Inverness, which has a wide range of people on it, from the department and from a wide range of other interests such as local authorities. That was the formal mechanism. We do not have a wide-ranging general advisory body of the sort that exists in some other areas of Executive business, on farming matters. That is because the majority of farmers are members of the NFUS. Once you have talked to the NFUS, the Scottish Crofters Union and the Scottish Landowners Federation, you have covered most of the waterfront—sorry, I am getting into terrible difficulties with my metaphors.

The Convener: Metaphors are not too bad. It is acronyms that we do not like.

John Graham: Once you have talked to those

organisations, you have covered all the main interests in the farming world.

The Convener: If there are no other questions, I want to say in closing that the witnesses will probably have noticed that there were one or two angry farmers outside. What would be your message to Scottish farmers about the scheme and its consequences? Do you or your colleagues have any final comments to add?

John Graham: We certainly regret the uncertainty and the abortive expenditure that, in some cases, resulted from the delays in putting the scheme in place. We also regret the fact that the budget was nowhere near that needed for the applications. As we have discussed, there are various lessons to be learned from the scheme and we are taking those into account in constructing the new rural development programme.

The Convener: Thank you. I bring this evidence session to a conclusion. I thank Mr John Graham, Jan Polley and Andy Robertson for their attendance and for the evidence that they have given to the committee. It is in all our interests that lessons be learned and implemented as we all realise the importance of their work for Scotland's agricultural industry.

John Graham: Thank you, convener.

The Convener: The committee will now go into private session to consider agenda item 5.

15:13

Meeting continued in private until 15:26.

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