

**Chapter 25 Department of Agriculture, Fisheries  
and Food**

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**Farm Improvement Scheme**



## Farm Improvement Scheme

25.1 The Farm Improvement Scheme (FIS) is part of a measure to modernise agricultural holdings. €79 million of the overall measure provision of €85 million was allocated to this scheme within the Rural Development Programme 2007-2013 (RDP). Although the measure extends over seven years, all assistance was approved at scheme commencement. €12.9 million had been paid out by 31 December 2008.

25.2 The objectives of the scheme are

- to improve working and production conditions on farms
- to assist competitiveness and
- to contribute to the improvement of agricultural incomes.

25.3 A wide range of investments are eligible for assistance including expenditure by farmers on animal matting, fencing, mobile handling equipment and new structures. The maximum amounts of investment eligible for grant aid under the scheme are

- €20,000 per holding for investments in new structures and equipment for all sectors
- €20,000 per holding for investments on dairy and milking parlour structures
- €20,000 per holding in total for fencing<sup>78</sup>
- 10% additional grants in certain cases for applicants that are qualifying young farmers i.e. under 35 years of age.

25.4 The focus of the scheme altered in the course of its design phase. The RDP pre-approval evaluation carried out in 2006 identified the likely target group for measures including FIS as *'commercial farmers, mainly full time and actively engaged in the management and development of their farm as financially viable enterprises'*. The intention was that the holding would be *'above average in size, heavily capitalised and engaged in intensive forms of agriculture'*. Teagasc estimated that in 2007 approximately 32.5%<sup>79</sup> of all farms fell into the full-time category. The target group for the FIS, according to the terms and conditions of the scheme, announced six months later, included both full-time and part-time farmers.

25.5 Ultimately, in its implementation the scheme only applied income criteria to a small number of cases. The percentage of total investments supported by FIS up to 31 December 2008 represented by intensive enterprises was less than 1%.

## International Comparators

25.6 Within the common EU framework, each country decided its national strategy and national RDP and had considerable latitude in the focus and design of schemes under the Modernisation of Agricultural Holdings measure<sup>80</sup>.

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<sup>78</sup> The €20,000 investment ceiling for fencing is subject to the general €120,000 investment ceiling for investments in new structures and equipment and is, in effect, an investment sub-ceiling.

<sup>79</sup> Teagasc National Farm Survey 2007, 32.5% or 36,400 farms, page 11.

<sup>80</sup> Council Regulation EC 1968/2005.

25.7 In Ireland, the measure targets the major agricultural sectors, groups and investments and has a maximum grant size of €6,000 per beneficiary over the period 2007-2013, with higher grant amounts being available to qualified young farmers.

### **International Comparisons**

In **Scotland**, capital investment grants are awarded by a regional committee after competitive business case based assessments taking into account local rural priorities. Total funding for the measure for the RDP period is approximately €6 million. The maximum grant available is €365,000. Applicants are asked to indicate what change they expect the investment will make to their business and also to specify which scheme objective their investment helps achieve. This subsequently makes it easy to collect data on these metrics and assess scheme impact.

In **Denmark** the equivalent scheme has a minimum grant amount of €40,000, total funding of €76 million and expects to assist 315 farms over the seven-year period. Selection of projects is carried out by a committee appointed by the Department of Agriculture. Objectives are explicitly based upon value for money parameters.

In **Finland** a similar scheme to the FIS operates. However it prioritises the beef and dairy sectors and bio-energy projects. It has a total funding over the period of €15.2 million and aims to assist 1,000 recipients. The maximum grant amount is much larger than under the FIS at €504,000. The whole country qualifies for Less Favoured Area Status (the equivalent of disadvantaged areas in an Irish context).

## **Views of the Accounting Officer**

25.8 The Accounting Officer stated that the RDP identified the beneficiaries of the scheme as being all eligible farmers, subject to compliance with minimum educational requirements or farming experience. Thus the terms of the scheme, when introduced, encompassed a wider range of farmers than identified in the pre-approval evaluation. The policy of the Department was not to discriminate between full and part-time farmers when determining eligibility for schemes. This was in line with the main recommendations of the Agri Food 2010 and the Agri Vision 2015 Reports.

25.9 While the Agri Food 2010 Report stressed that agricultural policy must be framed with a full understanding of the differing needs and capacities of full and part-time farmers and in light of the challenging environment which farmers would face in the future, it recommended that there should be no distinction made between full and part-time farmers in terms of eligibility for schemes. The Agri Vision 2015 Report strongly supported this strategy and recommendations.

## **Scheme Structure and Commitments**

25.10 The scheme was cash limited. As a result, approvals would issue for applications which met the eligibility criteria on a 'first-come, first-served' basis, until the cash was absorbed. The Department found that the scheme was quickly oversubscribed and had not anticipated the rate at which applications would be submitted or that the total funding under the scheme would be exhausted at an early stage. A large number of applications were received within a short timescale and, in conformity with the conditions of the Department of Finance sanction and the overall cash based limit of €85 million, the Department closed the scheme to applications on 31 October 2007 at which point 12,675 applications had been received.

## Audit Concerns

There was a risk that

- Applications received after the cash limit of the scheme was reached but before scheme closure could give rise to contingent liabilities in respect of an estimated €63.9<sup>81</sup> million of properly submitted and qualifying applications, if all such applications were approved for payment.
- Requesting applications for grants that the Department would not have the funding to pay for, until several years after their submission, could give rise to non-effective expenditure in that the circumstances of the applicants could change significantly over the period.

## Views of the Accounting Officer

25.11 The Accounting Officer stated that applications received before the closing date but not yet processed due to the cash limit are being held by the Department and would not be processed unless further funding became available for the scheme. The terms and conditions of the FIS made it clear that the scheme would be closed for new applications when the funding was exhausted. He went on to say that the National Development Plan 2007-2013 made it clear that all expenditure was contingent on the ability of the State to fund investment priorities. The Department's position was that as approvals had not issued there was no contingent liability. However, these applications were now the subject of legal proceedings by one of the farm representative organisations.

25.12 The Accounting Officer stated that the Department could not have anticipated the rate at which applications would be submitted under the FIS or when the available funding would be absorbed by grant approvals, particularly against the background of the level of participation in the Farm Waste Management Scheme. A substantial number of farmers had been approved for on-farm investments under that scheme and would have been planning or actively engaged in farm building activity in respect of projects under that scheme. The level of applications under the FIS contrasted sharply with the actual level of activity under the scheme in 2008 when €12.9 million was paid in respect of 2,513 claims. The norm was that farmers apply for funding in respect of various projects but due to changed family, business or financial circumstances, they might decide not to proceed. The Accounting Officer stated it was not possible to anticipate such developments when grant approvals issue.

25.13 In regard to the up front allocation of all funds for the seven year period the Department considered that the operation of the scheme on an annual basis, with an annual budget, would have generated large numbers of repeat applications and on-going administrative problems with the value of applications exceeding the funding available.

## Scheme Administration

25.14 Although the scheme is cash limited, the Department does not cost the applications it approves for this and a number of other schemes. Instead it estimates the value of applications based on sampling and in this instance it concluded that applications received before 21 October 2007 would absorb the entire budget. 7,347 applications for grant-aid had been received by the Department by that date. This method means that commitments cannot at any time be precisely determined. In practice, however, approvals set out the nature of the project which is being grant

<sup>81</sup> This figure is based on the number of claims received after the estimated cut-off date of 21 October but before the closing date of 31 October 2007 multiplied by the average grant amount in that period.

aided and when taken together with the standard costings effectively allow the Department to project the amount of grant aid being approved. Subsequently, the Department carries out on-farm visits in respect of all applications prior to payment. Applications which involve the construction of buildings receive a pre-approval inspection.

25.15 At the payment stage, grants are determined on the basis of the eligible receipts furnished by the farmer or standard Department costings, whichever is the lesser.

25.16 The timing of payments is influenced by the Department's scheme procedures, which usually require successful applicants to draw down the funding within two years of approval and also by commitments under the Charter of Rights for Farmers 2005/2007 which sets time limits for administration and payment under Departmental schemes. Each application form was required to be supported by details of the new investment, location maps, planning permission (where relevant), notice under section 12 of the Water Pollution Act, 1977 (if applicable) and a declaration by a qualified agricultural advisor of the veracity and viability of the application.

### **Audit Concern**

The compression of funding into the early years of the scheme has the merit of improving the prospect of the investment achieving an early payback. However, since investments were approved based on the timing of receipt of applications rather than on foot of business cases specifically linked to scheme targets there is a risk that value will not be optimised.

### **Views of the Accounting Officer**

25.17 The Accounting Officer stated that a requirement for a business case for each investment was not provided for in the Rural Development Programme 2007-2013, had not been the practice in the operation of grant schemes in the past and had not been advocated in the reviews of either of the schemes integrated into FIS, namely, the Dairy Hygiene Scheme and the Farm Waste Management Scheme. The practice had been to determine the eligibility criteria for the scheme in order to direct aid towards the targeted beneficiaries and to issue approvals to eligible applicants subject to financial and timing constraints. While detailed assessment criteria were applied in cases where funding was confined to large scale projects or a small number of projects, e.g. marketing and processing grants in the food industry, it would have been impractical to evaluate and assess individually the large numbers of applications under schemes such as the FIS. However, he added that a business case requirement would be considered by the Department whenever further funding was allocated to the Department's on-farm investment schemes.

### **Scheme Monitoring**

25.18 All applications are received in local offices and each file remains in the local office throughout the entire grant application, inspection, approval and payment process. At a national level, the Department collected information on herd number, date of application, a brief description of the investment applied for and the county. Consequently, management information processed by the Department was limited. However, a management information system has subsequently been built.

25.19 Scheme evaluation is hampered because there is no built-in linkage between investments and the higher-level RDP targets.

25.20 State schemes should, to the extent possible, lever investment that would not otherwise take place. Farmers who waited to see the terms and conditions of the scheme before applying for

planning permission were unlikely to have it before the scheme closed, 111 days later. Consequently, a considerable portion of assistance is likely to be paid to farmers who had applied for planning permission in advance of the scheme and would, therefore, have been likely to invest without State assistance.

### **Audit Concerns**

Management information and performance reporting appeared to be inadequate in that the Department was not positioned to

- measure the impact of the FIS as a standalone scheme
- ensure payments are to the extent possible only made to holdings that needed grant assistance to induce the related investment.

### **Views of the Accounting Officer**

25.21 The Accounting Officer stated that because of the scale of activity under the FIS and other similar schemes, the process of examining and assessing applications, issuing approvals, carrying out inspections and certifying claims for payment was administered through the Department's local office network. The process was carried out on the basis of uniform procedures throughout the system. The Department followed the approach laid down in the RDP in regard to the assessment of applications received under FIS. The organisation and structure of the local office network were currently under review and future management information requirements would be considered in that context.

25.22 The Accounting Officer stated that the impact of the FIS was evaluated in combination with related measures in accordance with the performance indicators laid down in the RDP as a whole. These indicators had been reviewed and agreed by the EU Commission as part of its approval process.

25.23 The Department considered it would be quite difficult, particularly in the case of a scheme as substantial as FIS, to ascertain the level of deadweight<sup>82</sup> at grant application stage. However since the scheme was now in operation for a period of over one year, the Department felt that it was appropriate to conduct an assessment of the extent to which the expenditure grant-aided under FIS comprises deadweight and would do so shortly.

25.24 The Department did not accept the assertion, that farmers applying for planning permission in advance of the introduction of FIS, was an indication of deadweight. It was standard practice amongst farmers, together with their agricultural advisers, to apply for planning permission on several items of investment at one time in order to reduce costs and this practice was also encouraged by the planning authorities themselves. In addition, the introduction of FIS was signalled widely before the date of its introduction and farmers would have been aware of the need for planning permission to satisfy scheme conditions.

<sup>82</sup> Deadweight arises where a project would have gone ahead even in the absence of State support.

## Conclusions

A strength of cash limited schemes, from a financial management perspective, is that they ration a defined State allocation. The “first-come, first-served” basis of limiting access to grants is, however, a crude tool. While recognising that applicants who were grant-assisted met defined criteria, these schemes do not necessarily ensure best value, unless coupled with other selection mechanisms, including some form of cost/benefit analysis. The Department should give consideration, in future schemes, to using an additional selection mechanism, after minimum standards have been reached, to ensure optimum value for money.

The eligible pool of applicants was larger than in predecessor schemes, due to the removal of income limits and the amalgamation of several previous schemes. There were no alternative restrictions placed upon the size of the target group in order to cut down the numbers applying for this scheme. The Department should consider ways of better targeting this type of scheme, linking likely demand, scheme structure and funding. In the absence of a clear target population another mechanism should be sought for limiting scheme access, designed to promote best value.

The Department did not consider operating the scheme on an annual basis which could have allowed better sequencing of the Agricultural Inspectorate workload and Exchequer financial commitments. The Department should consider mechanisms to smooth both workload and financial commitment over the full term of a scheme.

The Department may have a contingent liability for applications received after the cash limit was reached but before the scheme closure date. The Department should ensure future schemes are designed so that there is no ambiguity about qualification for grant payment.

Overall, the scheme should be evaluated to determine the extent to which the scheme objectives have been achieved and whether the State funds have levered new on-farm investment. International comparisons should be factored into any such evaluation.