NFU Scotland (NFUS) welcomes the opportunity to respond to this inquiry.

Agricultural budgets have been committed by UK Government up to the end of the parliament, meaning there are little short-term budgetary issues on which to comment.

However, this submission outlines some of the key priorities in administering the spending commitments up to 2022 and highlights some key issues for Scottish Government to consider in its budget formulation onwards from that point.

CAP – 2017 to 2022

1. The European Union’s Common Agricultural Policy (CAP) accounts for a substantial proportion of the total annual EU budget; in excess of €58 billion or just under 39 per cent. The current system has evolved to support farm businesses to remain productive (via Pillar 1 funds), whilst also delivering on environmental outcomes (Pillar 1 greening and Pillar 2) and other development goals.

2. From 2014 to 2020, Scotland would have received around €4.6 billion (£3.5 billion) under the CAP from the EU. The Scottish agriculture sector is heavily reliant on CAP funding, with support payments accounting for around two-thirds of total net farm income in Scotland.

3. The Conservative Party 2017 manifesto committed to provide the “same cash total” in CAP funding up to the end of the next parliament, in 2022. Since the outcome of the General Election, NFUS has received verbal assurances from UK Ministers that this commitment will be honoured; however, NFUS will make strong representations to ensure that this funding is allocated and ringfenced within HM Treasury’s Autumn Statement.

4. Whilst early statements from UK Government on the security of vital CAP funding is welcome and provides some element of certainty and stability for farmers and crofters in the short term, questions do remain on how this money will be delivered to Scotland after ‘EU exit day’ in 2019. NFUS would support the Scottish Government in any push for clarity from HM Treasury on whether the funding will be delivered as previously, or by other means such as the Barnett Formula.

5. From the perspective of NFU Scotland, and indeed our sister unions elsewhere in the UK, it is vital that the devolved governments are able to use the committed funds for agriculture as had been guaranteed before the referendum. In light of significant spending pressures within Scottish Government, NFUS wishes for the 2017-18 budget to protect this spending as had been planned – in recognition of the stability these payments provide to the industry.

6. In addition to this, clarity on committed Scottish Government spending on Pillar 2 schemes is also needed. The Less Favoured Area Support Scheme (LFASS) is one example of a lifeline scheme for a vast number of Scottish farmers and crofters and it is co-financed to a large extent by Scottish Government funds. It is vital that the £65 million annual budget earmarked for this scheme is protected.

Future CAP post-2020

7. Post-2022, the amount of money the UK decides to spend on farming and farming-related matters will have major consequences for Scotland. NFUS is clear that agriculture must continue to receive the same quantum of funding as it currently does under the CAP post-2022. This budget must be ringfenced to agriculture and rural support.

8. The NFUS position is that HM Treasury should finance the new agricultural policy on a UK-wide funding framework, but with the devolved administrations given the policy tools and levers to ensure the agricultural policy works for all four parts of the UK. Any approach that drops a ‘Defra-centric’, one-size-fits-all policy on to the devolved nations would not be acceptable.

9. However, a significant concern is what budget will be committed to agricultural support after this time. With successive UK governments showing a preference away from direct (Pillar 1) support, there has also been no reassurance given to the sector as yet whether agricultural spending will be maintained and ring-fenced.

10. Should the existing Barnett formula be used rather than another means of farm support budget allocation, then the implications for agricultural support in Scotland are severe. If future funding is delivered via the Barnett Formula, Scotland’s share of support would be cut from some 16 per cent of the overall UK total to 8 or 9 per cent, as illustrated in the table below. This default option would result in a situation that could decimate Scottish agriculture and its vital food and drink sectors.

11. NFUS considers that agreement between the Scottish and UK government should be reached as soon as possible on whether the Barnett Formula could be bypassed in such a situation, in order to allow existing CAP principles to be adhered to (for example: working on the basis of non-historic allocations, or using criteria based on objective analysis). There must be a different methodology that retains at least the same level of funding going into Scottish agriculture as before.
Table outlining possible funding split under Barnett Formula

<table>
<thead>
<tr>
<th>EU Budget Allocation</th>
<th>Barnett Budget Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>UK CAP Pillar 1 Budget 2020</strong></td>
<td><strong>DEFRA Barnett Allocation in 2020</strong></td>
</tr>
<tr>
<td>Scotland’s Share</td>
<td>16%</td>
</tr>
<tr>
<td>England’s Share</td>
<td>65%</td>
</tr>
<tr>
<td>Scotland’s spend under Barnett</td>
<td></td>
</tr>
<tr>
<td>Scotland in €’s</td>
<td>€ 589,036,012</td>
</tr>
</tbody>
</table>

12. NFUS has consistently pressed governments about the significant diversity of Scottish agriculture and the performance of agricultural businesses. It is vital that the unique needs of the Scottish agriculture industry are fully accommodated in the development of a future support package. As previously outlined, it is vital that Scotland is able to use discretion to support Scotland’s Less Favoured Areas and use measures such as targeted coupled support.