The Scottish Parliament
Pàrlamaid na h-Alba

**Finance and Public Administration Committee**

Finlay Carson MSP
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By email

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Dear Finlay

**Agriculture and Rural Communities (Scotland) Bill – Financial Memorandum**

The Finance and Public Administration (FPA) Committee recently considered the Financial Memorandum (FM) for the Agriculture and Rural Communities (Scotland) Bill and agreed to draw a number of issues to the attention of the Rural Affairs and Islands Committee to support its wider scrutiny of the Bill at Stage 1. These issues are set out below.

The FPA Committee received 12 responses to our call for views on the estimated financial implications of the Bill as set out in the FM and we took evidence from Scottish Government officials on 6 February 2024.

## The four tiers

Scottish Government officials told the Committee that the Bill provides the powers to deliver a new, four-tier support framework. They explained that this "primary framework does not provide the detail, as that would be restrictive and would fail to provide the flexibility to respond to change", adding "the details of the tiered framework will, therefore, be provided in subordinate legislation".

The FM states that the precise split of funding across the tiers is yet to be determined and that this is “a key component of the co-design work currently underway”. It indicates that the Scottish Government broadly intends to “maintain underpinning support through base payments (Tier 1) and universally accessible support for land managers undertaking climate and nature actions through the enhanced mechanism (Tier 2) and to do so at similar levels to current direct support”. The remainder of available funding would be allocated to Tiers 3 and 4. The FM goes on to say that “final decisions on the allocation of funding across the tiers will be subject to a value for money assessment on how best to achieve the outcomes set out in the vision for agriculture and impact assessments of the effect a shift of funding will have on the sector, with a particular focus on ensuring a Just Transition for those currently involved in farming and land management”.

Several respondents to our call for views outlined concerns that the total funding available for the future policy and how it would be allocated was not communicated to them in advance of the FM being published. Nourish Scotland highlighted apparent contradictions, noting “on the one hand it states that the precise split of funding across the four tiers is yet to be determined and on the other it states that the funding for Tiers 1 and 2 is likely to be maintained at similar levels to current direct support”. It suggested this “leaves us somewhat confused as to the decision-making process from here on in”.

Scottish Government officials told the Committee in evidence that “it will be for Ministers to decide the split of the budget between the four tiers in due course, and we hope to set that out clearly for businesses in the run-up to the implementation of the 2026 iteration of the scheme, at which point we hope to bring in Tier 2”.

Concerns were also raised regarding the intention to continue the current distribution of funding. The RSPB for example noted that, under the current system of area-based direct payments, a relatively small number of businesses receive most of the support, while the Landworkers’ Alliance suggested that continuation of these payments is “an unacceptable use of public funds”. Scottish Government officials indicated that they are engaging with the Alliance on its call for more support for small producers and small enterprises. The Scottish Government is also running a small producers’ pilot scheme “to assess how we can better assist those produces and smaller businesses”.

Other submissions highlighted the Scottish Government’s own analysis raising issues concerning the area-based funding system, including that most Common Agricultural Policy (CAP) funding under the 2014-20 round did not deliver the intended benefits or value for money. It was suggested that replacing the CAP offers an opportunity to improve on the current funding model, including reducing the amount of funding allocated to Tier 1 and phasing it out altogether over time. In response, Scottish Government officials explained that a new element would be introduced, enabling support to undertake measures relating to climate and nature outcomes and that they would be putting in place “the right monitoring and evaluation … so that we can check as we go that we are getting the right bang for our buck”.

Other respondents said they are content with the current approach. Scottish Agritourism suggested that “core funding for agriculture to produce food is essential in Tier 1,” and the National Farmers Union (NFU) said it supports the suggestion that the majority of funding would be allocated to Tiers 1 and 2. The NFU also said it would like to see multi-year funding commitments to “provide certainty for farm businesses and deliver a greater foundation for success going forward”.

Scottish Government officials noted “it is true to say that the current system is based on area-based payments, which means that those with more land receive larger payments”. However, they went on to say that “the Bill provides us with the powers to look at whether we should have an upper threshold on the payments received by any one business, according to whatever criteria Ministers might want to set in the future, including a cap on the total amount of the payment”.

Asked whether the Committee could have faith in the figures for a period of five years when the sums in the FM do not reflect the reductions in funding to the sector set out in the Scottish Budget 2024-25, Scottish Government officials explained that the figures in the FM were based on the “best information available to officials at the time”. They added “nevertheless, the intention is for the Scottish Government to continue to support the sector with the funds available, which, until the end of the UK parliamentary session, are to be retained at much the quantum that they are at present”. Officials went on to say that, to date, they have not had any meaningful discussion with HM Treasury or the other devolved administrations regarding the funding settlement beyond this UK Parliamentary session.

Scottish Government officials further highlighted that Tier 2 will deliver more of the environmental benefits that are needed and “that is where the budget will make more difference than the current income support budget does”. They also explained that “we have a group of staff whose function is to ensure that the agriculture policy is aligned to the climate change plan …, to ensure that we have an implementable mechanism to take that forward in the support structure”.

Costs to the Scottish Administration

Total Scottish Administration costs are estimated to be £837.4m in 2023-24, and £839.4m by the end of the anticipated transition period in 2027-28. The FM does not reflect potential inflationary costs; however, it notes that “all future budgets, with the exception of transition costs, are retained at 2023-24 budget levels and will be subject to affordability and inflationary increases”. Table 1 in the FM assumes the same level of total financial support to the sector until 2028.

The FM states that future administrative costs under the proposed Future Framework support are unclear and will depend on the chosen delivery model. Currently, the 2023-24 budgeted costs to administer payments, compliance and supporting services are £61m of the £692m budget for all current schemes. The FPA Committee noted an error in the FM which stated that this represented 11% of the total budget.

Asked how the £61m figure was arrived at given the current uncertainty regarding the chosen delivery model, Scottish Government officials explained that this is based on current administration costs, including staffing and IT costs. Consideration of options for how operational delivery might be more streamlined and simpler to administer will be “part of the work that we are doing to develop the business case for how operational delivery will work under the new framework, following this Bill”.

The FM outlines estimated transition costs to deliver the Future Framework support programme, based on an anticipated transition period from 2023-24 to 2027-28 to deliver a new payment framework. It estimates that total transition costs are expected to be approximately £64m. This estimate includes additional staffing required for programme development, the costs associated with retiring redundant or adapting existing digital services and developing new digital services, and support for farmers through Preparing for Sustainable Farming. As detailed in Table 5 in the FM, digital developments are expected to account for £60m of the anticipated transition costs to the Future Support Framework.

Though the FM notes that bringing a new delivery model into service will incur implementation costs, an estimation of these costs is not included, as this will depend on design costs which are yet to be confirmed. Scottish Government officials explained that the implementation cost is the difference between what we currently pay and might pay in the future, adding “because we are building a plane while flying it, the implementation costs are not a simple equation”, however the FM assumes that current costs will in effect continue.

In its written submission, Quality Meat Scotland suggested there is a danger that future administration costs could rise, noting that “there will be extra costs of administration and changeover, particularly digital costs so it is crucial that these are not passed on to farmers in reduced support payments”.

The NFU also questioned the costs outlined in the FM, querying why no staff costs are assumed for 2025-2028. It suggested that “it is overambitious that transition costs will be wholly met from within existing resources”.

<u>Costs to other bodies, individuals, and businesses</u>

The FM states that farmers, crofters and land managers currently receive around £0.7 billion annually in public subsidies under the CAP, and that “the same people will continue to benefit from these subsidies under these proposals but those who deliver sustainable regenerative farming will benefit the most”. It goes on to explain that there may be costs associated with interventions and measures required for Tiers 2 and 3 of the Future Framework through secondary legislation. The FM states that the Scottish Government will seek to offset these additional costs for farmers, crofters and landowners by “providing appropriate support levels … to transform the ways they farm as well as by setting rates of support for each tier of the framework that take account of the associated transaction costs to participating businesses. Setting rates of support is a key element of developing the detailed delivery mechanism through user centred design and co-development with the sector”.

Several respondents suggested that they may face transition costs not covered in the FM. The RSPB noted that financial implications for its operations and land management are likely to arise as a result of the proposed transition to a four-tier system. However, the submission states that it is not currently possible to assess the extent of this impact, as the financial implications in the FM are set out in "rudimentary terms", with future costs unclear.

Scotland's Rural College (SRUC) stated that "there is clear indication within the FM of significant expenditure which has not been outlined or provided for [… which] increases the uncertainty in affordability of changes proposed", adding "no apparent savings are noted throughout the FM that are either to the benefit of SG or to farmers". SRUC's submission also notes that "changes to agricultural support mechanisms will require us to redesign our internal processes to help deliver the schemes with farmers [… and] significant internal costs are anticipated for this."

NFU Scotland also argued that "it is disingenuous to imply that there will be no costs to the primary producer as part of the agricultural transition". They consider there will be significant investment required from farmers and crofters, as well as training, learning and upskilling in order to undertake measures outlined in the tiers.

<u>UK Government funding</u>

The FM explains that, at present, support for agriculture and the rural economy is delivered through the CAP carried forward from the EU. The UK Treasury has committed to provide ongoing resource funding at this level ringfenced at £621m until the end of the current UK Parliamentary term. An additional £71m of Scottish Government funding resulted in an overall budget of £692m in 2023-24.

The FM notes that the quantum of funding available for agriculture support and rural economy beyond the term of the current UK Parliament is unknown, and that there is no funding commitment from 2025 onwards. It states that future funding levels are the subject of ongoing dialogue between the UK and Scottish Governments, and that the Scottish Government's "working assumption is that funding levels will be retained from 2025-26 onwards".

Several respondents to the Committee's call for views highlighted the lack of certainty surrounding future UK Government funding as an area of concern. The Soil Association stated that "there is an urgent need for this potential 'cliff-edge' to be addressed", and advocated for "a commitment to multi-year, ring-fenced funding for agriculture for the devolved administrations".

Scottish Government officials noted that Scottish Ministers "have committed to having no cliff edges and, in order to meet that commitment, we would not want to drastically reduce anybody's access to the payments that they currently receive, although that might change over time".

<u>Framework Bills</u>

Officials explained to the Committee that "as the Bill is a framework Bill, providing future flexibility and adaptivity on how Ministers may wish to provide support in the future, the forecasting of a replacement programme is undertaken at a high level at this stage …, however, future budget allocations are dependent on UK Government funding commitments, which are uncertain".

Asked why the Committee should accept the figures in the FM given the levels of uncertainty highlighted above, officials stated that “all our actions have demonstrated our good faith in that area, and we have set out the position with as much accuracy as we can”. They went on to say that “we are committed to working with the sector and the Parliament as we take each step and we have published when we are going to take those steps”.

The FPA Committee has ongoing concerns regarding the increasing use of framework Bills and continuing a co-design process during and beyond the passage of primary legislation. This approach presents significant challenges for effective scrutiny of cost estimates associated with legislation. Our concerns in this area are set out in detail in our December 2022 report and supplementary letter of 8 February 2024 to the Scottish Government in relation to the FM for the National Care Service (Scotland) Bill.

We hope that the issues raised in this letter are helpful in supporting the Rural Affairs and Islands Committee’s scrutiny of the Agriculture and Rural Communities (Scotland) Bill.

Yours sincerely

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**Convener**
**Finance and Public Administration Committee**