



Finlay Carson MSP
Convener, Rural Affairs, Islands &
Natural Environment Committee
Scottish Parliament

26 August 2022

Dear Finlay,

Scottish Budget 2023-24

Thank you for your letter dated 1 July 2022 following publication of the Resource Spending Review (rSR) and the targeted refresh of the Capital Spending Review. I appreciate the opportunity to provide more information about the rSR and what it means for the Government, my portfolio and most importantly the people of Scotland.

The rSR covers the period up to 2026-27, and as you know has been carried out against a backdrop of considerable uncertainty and challenges. It sets out – as best we can given the volatility – the spending priorities of this Government and the high level financial parameters for portfolio funding envelopes.

It is not a Budget and does not replace the annual Scottish Budget process, where proposed spending plans will be presented to the Scottish Parliament for scrutiny. This means each portfolio, including Rural Affairs and Islands (RAI), will be undertaking detailed planning in the coming months as part of the annual Scottish Budget process.

You will appreciate the Scottish Government is managing a very challenging financial landscape and it is essential that it undertakes strategic planning – the rSR forms a key part of the planning.

Rural Affairs & Islands Budget

Funding, Priorities, efficiencies and engagement

While Scotland is continuing its recovery from the pandemic, we are also managing significant budget pressures and risks due a complex range of factors including the war in Ukraine, the cost of living crisis, rapidly rising inflation, constrained funding and increased uncertainty in the plans of the UK Government (UKG). This collectively creates very significant volatility in the fiscal outlook.

For context, when the UKG Spending Review set out funding for the Scottish Budget last year, inflation was 3.1%. Despite inflation now being at a 40-year high, and expected to rise to over 13%, the UKG has not updated its spending plans, leaving the Scottish Government with less funding in real terms.

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The rSR balances spending plans against the available funding, using best estimates based on current forecasts and constitutional settlements. These judgements can change over time, however the Scottish Government does not have the necessary fiscal levers to manage the volatility in funding, spending pressures and wider fiscal risks. As a result, there is a need to prioritise. The basis for the Scottish Government spending plans was set out in the Bute House Agreement and the Programme for Government, which are aligned with the National Performance Framework and associated outcomes. These were set out in the Resource Spending Review Framework ([published 9 December 2021](#)), on which public consultation was undertaken as part of an external engagement programme. This engagement programme comprised an online public consultation, and a series of Ministerial roundtable engagements with stakeholders were undertaken. This provided the process with valuable insights and a summary of responses is published here: [Resource Spending Review Framework: Analysis of consultation responses - gov.scot \(www.gov.scot\)](#).

In this spending review we have prioritised spending on health and social security, education and tackling climate change, alongside public sector reforms and efficiencies. We have also added the actions we are taking to help people struggling with the cost of living across Scotland.

However, by definition we cannot prioritise everything. So against this challenging backdrop, I am continuing to prioritise payments for the rural, agriculture, marine and island communities. This prioritisation provides much needed economic stability to our most fragile areas who continue to bear the consequences of COVID, EU Exit and now the cost of living crisis. I also intend to ensure we remain focussed on our critical work with the agricultural sector to deliver the agricultural vision to support food production, climate mitigation and adaptation and nature restoration.

You will know that the majority of my portfolio's budget is ring-fenced by the UKG for particular use and that the UKG spending review did not provide any financial certainty beyond 2024-25. This, and the real-terms reduction in the capital and resource grants creates particular challenges for my portfolio that need to be managed.

However despite this I am clear that the budgets allocated to RAI as part of the Scottish Government's annual Budget setting process will continue to make a vital difference to our rural economy providing delivery partners with as much certainty as possible through the high level multi-year financial parameters set out during this very difficult period of recovery and volatility.

Fisheries and Marine Budget

In your letter you specifically ask for an explanation for the £10m decrease in the fisheries budget and £12m increase in the marine budget between 2022-23 and 2023-24. I can confirm the overall fisheries budget remains at 2022-23 levels. The reduction in the resource budget is balanced by an increase in capital spending following the targeted review of the Capital Spending Review (please refer to the updated Spending Allocations for 2023-24 to 2025-26 in [Annex A: Portfolio Capital Spending Totals](#)). This better reflects the likely capital/resource funding requests in Marine Fund Scotland grant applications.

The increase in the marine budget reflects the additional funding that is being committed to the planning and consenting of Offshore Renewable Energy in support of the ScotWind leasing round. Similarly, increased funding has been committed to marine conservation activities that have a positive impact on climate change and biodiversity loss. Of these, the delivery of fisheries management measures for the existing Marine Protected Areas network and the work

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towards meeting our ground breaking commitments on Highly Protected Marine Areas are key areas that are being actively supported through the budget.

Good Food Nation plans and implementation of legislation

Regarding your request for information on the establishment of the Scottish Food Commission, this work is at an early stage following Stage 3 of the Good Food Nation Bill in June, with the Bill receiving Royal Assent on 26 July.

As you will appreciate, setting up a new public body is a complex project and it will take time to fully assess the detailed logistics, timescale and budgetary requirements. However, as I previously noted, the current anticipated running costs are expected to be around £1m per annum and this has been included in the rSR under the “Rural Services” line. The figure is based on an assessment of the budgetary requirements of similar sized public bodies and an early assessment of running costs.

The Good Food Nation (Scotland) Act 2022 sets out that the functions of the Scottish Food Commission will include: scrutinising and making recommendations in relation to the good food nation plans and progress reports; conducting research, and providing advice to the Scottish Ministers, local authorities and health boards in relation to their good food nation plans. The running costs figure will be reviewed and updated as part of the annual budget cycle and I will continue to update the Committee as progress is made.

Islands Programme

The National Islands Plan provides a framework for action to meaningfully improve outcomes for island communities, and I remain committed to delivering economic recovery and resilience to our rural, coastal and island communities by working across Scottish Government and with our partners across the wider public sector.

Given the detailed nature of the Committee’s questions on Islands I have drawn up an annex of further information (attached), but to summarise I intend to ensure that within the financial parameters across capital and resource that future Islands Programme investment is focused on transformational projects that will result in sustainable and long lasting change for our island communities.

I hope this letter provides you with additional context on the rSR in addition to an outline of my priorities for my portfolio. I look forward to meeting with the Committee in due course to discuss the 2023-24 Scottish Budget in more detail.

Changes to the fiscal position are inevitable over the next few years, but at the heart of this spending review, and my portfolio, is the ambition to achieve the greatest impact for our economy, for our environment for our society, with the need to continue improving public services, as we build back from COVID and respond to the challenging economic and financial outlook for Scotland.

Yours sincerely,

MAIRI GOUGEON

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Annex A – Islands Programme

The Targeted Review of the Capital Spending Review published in May shows that the islands capital budget is projected to be £25.8 million. The Programme for Government states that this is £30 million. Can the Government explain the difference?

I remain committed to supporting islands investment and will continue to review this as part of the annual budget process. Significant capital investment has already been made in key projects for islands communities, such as the Fair Isle Observatory and the Kerrera road, and more will be made in the current financial year. This is alongside our growing commitment to the islands since the Programme for Government commitments were made last year. For example, we are taking forward six Carbon Neutral Islands initiatives, rather than the originally proposed three.

Over the period of the rSR I have also outlined £10m in resource spending alongside capital support for the Islands Plan and the Carbon Neutral Islands initiative. However, this Government's commitment to the Islands does not just include investment through my portfolio directly, but through other funding that we have committed across Scotland.

How did the Government decide on the £4 million Islands Programme allocation for 2022-23 when the Island Infrastructure Fund received £6.2 million the previous year?

The delivery of the £6.2m Islands Infrastructure Fund in 2021-22 reflected the urgent needs of island communities during the COVID pandemic. Funding projections for future years have been re-profiled and are designed to accommodate the longer-term nature of the infrastructure projects which the Islands Programme will be funding. As Scotland starts to recover from the impacts of the pandemic, the investment will allow for projects to be developed more steadily, and for partners to plan carefully whilst seeking to draw in additional funding to support delivery from other sources.

The Islands Team works very closely with key island stakeholders and across Scottish Government to ensure that investments align to local priorities, while contributing to ongoing collaborative priorities for population work in our island communities, and creating/supporting sustainable employment opportunities; all central delivery priorities within the [National Islands Plan](#) (NIP) and [NIP Implementation Route Map 2020-2025](#).

How does the £4 million support population retention and repopulation in those island communities most needing support?

I have approved the 2022-23 Islands Programme awards and the Local Authority applicants have been notified. The 11 successful applications cover at least 31 islands across all six island local authorities and the awards will directly support islands with populations in the low hundreds (Coll, Iona, Eigg, Berneray, Eriskay) as well as one of the least populated islands, Papa Stour.

The projects on these islands include the development of digital and community hubs, which will provide or safeguard key social and economic infrastructure to support healthy, thriving islands. The investment on Papa Stour will help secure the only community building on the island thereby leading ultimately to additional employment, social and cultural activities, and improved viability of the community.

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The largest single award for 2022-23 will support a major new development on mainland Orkney, benefitting all of Orkney's islands. The project is directly linked to population retention and growth, whilst also addressing child poverty and providing practical training opportunities for employment in an industry facing severe shortages locally.

A circular economy project in Shetland will act as a demonstrator that a small community can be an affordable place to live in comparison to other areas and centres. A housing enablement investment on Eigg will help meet its existing housing crisis thereby helping to retain families on the island. An investment in Uig, on the Isle of Lewis will help to facilitate future employment opportunities in one of the top ten rural SIMD areas. By providing quality jobs and apprenticeships, the project will help retain local young people and attract new residents contributing to demographic stability. The three projects under a Community Facilities Programme in the Western Isles aim to reinvigorate and enhance the fragile and peripheral area of the Outer Hebrides. These improvements will encourage increased usage of community buildings and so strengthen community bonds whilst creating more attractive places to live.

How does this capital spending link to other policies being considered, for example, repopulation zones and islands bonds?

Addressing population challenges across our rural and island communities requires collaboration across all sectors. There is no quick fix for the challenges leading to depopulation with regional, local and community partners to ensure that we collectively deliver a sustainable solution to the challenges facing our rural and island populations.

The objectives of the Islands Programme ensure co-ordination with other funded and planned initiatives on islands. All applicants to the 2022-23 Islands Programme were asked to consider how their projects will ensure impact against place-based priorities to accelerate local growth and resilience and to demonstrate collaborative and partnership models.

The Islands Team works with all divisions within Scottish Government to deliver the National Islands Plan Strategic Objectives. Discussions are frequently held with other areas of Scottish Government including Housing, Transport Scotland, Digital and other areas, to identify co-funding opportunities.

Why did the Scottish Government decide to adopt a competitive process? How does this differ to what went before?

The decision to make a direct allocation to Local Authorities for 2021/22 stemmed from the need to expedite onward allocation to eligible projects in the short timeframe available in 2021/22 post-Election and following Covid-19 delays. Funding Programmes fall into three broad types:

1. Direct applications from projects via an open competitive bid (e.g. the Clyde Mission).
2. Scottish Government working in partnership with Local Authorities, with a competitive bid from Local Authorities as lead applicants for their preferred projects (e.g. the Regeneration Capital Grant Fund).
3. Direct allocation to Local Authorities for Local Authority allocation (e.g. the Place Based Investment Programme).

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Building on experiences from the first year of the Islands Programme, and feedback from communities, other wider stakeholders, and other policy areas, we worked with Scottish Futures Trust to identify appropriate mechanisms to allocate and distribute future funding efficiently and promptly. We drew learning from existing and exemplar mechanisms across Scottish Government and programmes with relevant, similar objectives were also reviewed.

What are the benefits and risks of such an approach?

In a competitive bid fund, Scottish Government and Ministers, with input from an Investment Panel, can ensure funding goes to critical local infrastructure to maintain island resilience and build a platform for progression and delivery of the National Islands Plan. A competitive bid allocation provides assurance that money is going direct to deliver national Government policy and can identify those projects across all the islands which match Government objectives most closely. This route also helps deliver support and guidance direct to projects and communities. It provides wider engagement beyond Local Authorities, greater community involvement and creates stronger links with projects.

The competitive bid approach with Local Authorities as the lead applicants, allows Scottish Government to work in partnership with Local Authorities, while Local Authorities are able to put forward their preferred applications which tie into local priorities.

A competitive bid model aligned with the Regeneration Capital Grant Fund (RCGF) has clear benefits to deliver the objectives of the Islands Programme. The RCGF process is familiar to and understood by grass roots organisations, has relevant application mechanisms in place within Local Authorities, and known procedures within Scottish Government. Local Authority regeneration and economic development teams have existing knowledge of local development plans, infrastructure projects and requirements. Existing systems are in place within Local Authorities to oversee an application process aligned to RCGF.

All funding allocations, whatever the method, require input and resource from the underlying project and lead applicants. The Islands Programme application process has been aligned with RCGF to help minimise any additional burden but also has additional asks to ensure that any investment delivers the National Islands Plan Strategic Objectives and the criteria selected each year. We acknowledge that the nature of a competitive bid means that not all applications will be successful. This is particularly true in a highly competitive landscape. This may be perceived as a waste of local authority officers' or applicants' resources. However, the benefits of this route outweigh the challenges. A mix of direct allocation and competitive bid Programmes across Scottish Government and beyond deliver a full range of funding opportunities for a wide variety of projects and communities.

The cost of supporting the bid process and assessing applications can also be significant. However, the benefit of close work with Local Authority partners and underlying community groups adds to officials' knowledge and understanding of current issues and financial pressures in the islands. The support and expertise of Scottish Futures Trust has also been acknowledged by applicants in helping to bring their applications forward. The impact on SG resources of a competitive bid model without upper limits on number of applications is also considerable. The 2022-23 Programme was therefore limited to five applications per Local

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Authority. The maximum number received from any local authority was four, with three applications from two other Local Authorities, two from two and one from one.

The length of a bid process can cause frustration. However, we are pleased to announce that the 2022-23 applicants have been informed of the results of their applications within five weeks of the Investment Panel's recommendations and less than two months after the deadline for applications. The 2022-23 round was also limited to one round of applications to reduce work and minimise time between the launch of the fund and the deadline for investment.

Competitive bid programmes can have changing information requirements which create uncertainty. We have worked to minimise the complexity of processes and have endeavoured to set out from the start of the IP the purposes of the funding and its principal criteria.

Who is on the investment panel, how was membership decided and what is the role of Ministers?

Membership of the Investment Panel was designed to reflect relevant infrastructure/capital focus and, for Scottish Government members, an experience of connecting policy with infrastructure spend. External members have island investment experience, and are drawn from infrastructure facing organisations with experience of investment panel assessments.

I approved membership and terms of reference for the Panel in May this year. The 2022/23 Panel comprised eight members, including three officials from Scottish Government.

Name	Organisation	Job Title	Role
Erica Clarkson	Scottish Government	Head of Islands Policy and Communities	Chair
Nicola Crook	Scottish Government	National Islands Plan Lead	Co-Chair
David Cowan	Scottish Government	Head of Regeneration Unit	Member
Neil Rutherford	Scottish Futures Trust	Senior Associate Director	Member
Diarmaid Lawlor	Scottish Futures Trust	Associate Director	Member
Douglas Cowan	Highlands and Islands Enterprise	Communities and Place Director	Member
Robert Emmott	Dundee City Council	Executive Director of Corporate Services	Member
Angela Scott	Aberdeen City Council	Chief Executive	Member

The Investment Panel collectively decided on the final projects to be recommended for approval by Scottish Ministers. As always, final decision making rests with Scottish Government and Ministers. I approved the Islands Programme recommendations for final projects in July.

What criteria are/were used to assess and award bids?

Applications were assessed against the eligibility criteria, the aims and objectives of the IP, within the broader context of strategic priorities, evidence of ability to deliver using grant offered in 2022-23, and anticipated outcomes from the approach. To be eligible, projects looking for capital funding for critical infrastructure must be delivered in inhabited Scottish island(s).

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All applications were asked to align with a range of overarching priorities including:

- [The National Islands Plan;](#)
- [National Performance Framework;](#)
- [Programme for Government;](#)
- [Infrastructure Investment Plan;](#)
- [National Transport Strategy and Strategic Transport Projects Review 2; and](#)
- [Community Wealth Building](#)

Community empowerment is at the heart of the National Islands Plan. Consequently, the Local Authority applicants were expected to bring forward project proposals which had been developed with the involvement and support of relevant communities, as well as third sector and private sector partners as appropriate.

Applicants were asked to provide evidence of how the infrastructure would be managed and maintained to attract further investment (from the community or for future development) to secure and sustain its productive future use. The delivery criteria were that projects should:

- Meet the overall objectives of the Islands Programme.
- Link directly to at least one of the National Islands Plan Strategic Objectives.
- Ensure transformational impact against place-based priorities to accelerate local growth and resilience.
- Align with local critical infrastructure priorities and have the potential to collaborate with other place-based investment opportunities to maximise benefits.
- Demonstrate project readiness, collaborative and partnership models, project viability and long-term sustainability.
- Demonstrate clear Community Wealth Building principles (such as local benefits from procurement and support for local supply chains) and community involvement and engagement
- Support Scottish Government Net Zero Ambitions and a Just Transition.

The application form reflected these criteria under three headings: Deliverability; Engagement, Need and Opportunity; and Outcomes and a qualitative approach was taken for assessing how an application met these criteria and the IP's objectives. Projects were scored and weighted using the following criteria:

- Deliverability – 25%
- Engagement, Need and Opportunity – 35%
- Critical and/or Transformational Outcomes – 40%

The Investment Panel reviewed, scored and discussed the applications and made recommendations to me. A detailed appraisal guide and scoring criteria document was provided to the Investment Panel members. This included a detailed scoring framework in order to support consistency of approach to scoring across all Panel members. Although the Islands Programme is primarily focussed on supporting delivery of the NIP Strategic Objectives, the panel were asked to assess to what extent the project's development and delivery considered how it could maximise its contribution to net zero ambitions.

The scoring framework ranged from a criterion not being addressed, through insufficient evidence, poor, fair, good to excellent evidence and support. The panel were given detailed examples of the level of detail which might be expected in each of these qualitative bands, ranging from full and clear descriptions being an excellent response, to not fully described or not included or minimal for insufficient detail.

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What role does the Scottish Futures Trust have in the delivery of the £30 million (or £25.8 million) Islands Programme?

The Scottish Government appointed the Scottish Futures Trust (SFT) in early Summer 2021 to provide expertise, resource and capability to help lead the delivery aspects of the Islands Programme. As a centre of infrastructure expertise, SFT has provided clear guidance for participation and an assurance approach to realise the objectives of the Islands Programme. Decision making throughout rests with Scottish Ministers.

SFT's role includes close working with Local Authorities, HIE and other key stakeholders during the application process and to ensure completion of projects and desired outcomes and impacts are achieved. SFT is providing expertise and support to the Islands Programme through a dedicated island-based lead and by supporting the Investment Panel.

How many bids were rejected and what happens to those projects now?

15 applications were submitted to the 2022-23 Islands Programme and 11 projects have been approved to receive funding. Four applications failed to meet the criteria for Islands Programme investment. Detailed feedback has been provided by the Investment Panel and funding decisions relayed to Local Authority officials.

Support and feedback will be provided by Scottish Futures Trust. This will include advice on how unsuccessful projects might be supported to apply for funding in future years, by adjustments to elements of the applications, improving detail or focus in their applications, or whether an application to other programmes would be more appropriate.

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