



OFFICIAL REPORT  
AITHISG OIFIGEIL

# Rural Affairs and Islands Committee

Wednesday 17 January 2024

Session 6



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**Wednesday 17 January 2024**

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**RURAL AFFAIRS AND ISLANDS COMMITTEE**

**1<sup>st</sup> Meeting 2024, Session 6**

**CONVENER**

\*Finlay Carson (Galloway and West Dumfries) (Con)

**DEPUTY CONVENER**

\*Beatrice Wishart (Shetland Islands) (LD)

**COMMITTEE MEMBERS**

Karen Adam (Banffshire and Buchan Coast) (SNP)

\*Alasdair Allan (Na h-Eileanan an Iar) (SNP)

\*Ariane Burgess (Highlands and Islands) (Green)

\*Jim Fairlie (Perthshire South and Kinross-shire) (SNP)

\*Kate Forbes (Skye, Lochaber and Badenoch) (SNP)

\*Rhoda Grant (Highlands and Islands) (Lab)

\*Rachael Hamilton (Etrick, Roxburgh and Berwickshire) (Con)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

George Burgess (Scottish Government)

Erica Clarkson (Scottish Government)

Mairi Gougeon (Cabinet Secretary for Rural Affairs, Land Reform and Islands)

Emma Harper (South Scotland) (SNP) (Committee Substitute)

Karen Morley (Scottish Government)

David Signorini (Scottish Government)

**CLERK TO THE COMMITTEE**

Emma Johnston

**LOCATION**

The Mary Fairfax Somerville Room (CR2)



# Scottish Parliament

## Rural Affairs and Islands Committee

Wednesday 17 January 2024

*[The Convener opened the meeting at 09:38]*

### Budget Scrutiny 2024-25

**The Convener (Finlay Carson):** Good morning, and welcome to the first meeting in 2024 of the Rural Affairs and Islands Committee. I welcome to the meeting Emma Harper MSP, who is substituting for Karen Adam. Before we begin, I remind anyone using electronic devices to please switch them to silent.

Our first item of business is consideration of the 2024-25 Scottish budget. I welcome Mairi Gougeon, Cabinet Secretary for Rural Affairs, Land Reform and Islands, and her officials, George Burgess, director of agriculture and rural economy; Erica Clarkson, head of islands policy; and Karen Morley, head of finance, agriculture and rural economy. We also have David Signorini, director of marine at the Scottish Government.

I invite the cabinet secretary to make an opening statement.

**The Cabinet Secretary for Rural Affairs, Land Reform and Islands (Mairi Gougeon):** Thanks very much, convener and committee members, for inviting me to address the committee today.

When I attended the pre-budget session in September, I set out the priorities of my portfolio. I am pleased to come back to outline how the 2024-25 Scottish budget, which the Deputy First Minister presented to Parliament in December, will help to deliver on those priorities within the wider context of the Government's priorities.

The budget has been set in turbulent circumstances. At the global level, the impacts of inflation, the war in Ukraine and the after-effects of the Covid pandemic continue to create instability. In the United Kingdom, the combined effects of Brexit and disastrous Westminster policies mean that we are uniquely vulnerable to those international shocks. Those Brexit impacts continue to harm Scotland's rural and island businesses and communities and create new challenges every year for the rural affairs, land reform and islands portfolio to respond to.

Against that background, the decisions that we have taken in this budget are driven by our values and prioritise our three missions. We have chosen a progressive path: to invest in our people, our

economy and our public services. Where we can, we have taken action to prioritise support to the most vulnerable in our communities, to attract investment and support a growing, sustainable economy, and to address the nature and climate emergencies.

My priorities are clear. The budgets allocated to my portfolio will continue to make a vital difference to our rural, coastal and islands economy. As I did in the previous financial year, I will prioritise my portfolio's direct cash injection of over £600 million into the economy for rural, agriculture, marine and island communities.

The Scottish Government is now providing the most generous package of direct support for farmers and crofters anywhere in the United Kingdom. We are also committed to getting money to people and businesses as early as we can every year, to help them to meet on-going inflationary and cost of living pressures. In 2023, the first tranche of direct payments was made in September—earlier than in the previous year—and exceeded forecasts by paying nearly £300 million in basic payments in the first three weeks. We will continue our critical work with the agricultural sector to co-develop and deliver on the agricultural vision, investing to help Scotland to become that global leader in sustainable and regenerative agriculture. We have also committed to deliver agri-environment investment as part of an overall budget of £30 million to support biodiversity.

My portfolio has expanded to include responsibility for peatland and forestry, and we are maintaining our record world-leading investment in peatland. Investment in new woodland creation planting will continue to contribute to our climate change targets and net zero ambitions.

By maintaining the £14 million for the marine fund Scotland, we acknowledge the vital role that our seas play in supporting the economy in coastal communities through fishing and aquaculture, as well as supporting activity to improve and restore the marine environment.

Our commitment to supporting the ambitions for our islands remains strong, with an investment of £6.7 million, which is an increase on the amount in the resource and capital spending review that was published in May 2022, with £4.3 million now allocated in capital.

Members of the committee have rightly taken a keen interest in the ring-fenced money due to return to the portfolio. I welcome the return of the first tranche of £15 million of that funding in the 2024-25 budget. In the draft budget, that funding is allocated as resource funding, but, across the portfolio, the greatest need is capital priorities. I am glad to have received the Deputy First

Minister's agreement in recent days that the portfolio will instead receive that £15 million as capital funding. It will fund vital unfunded capital priorities within the portfolio, which will provide important support to our rural communities, including the agri-environment climate scheme, the agricultural transformation fund, and crofting grants.

The Government will do what we can with all that we have to support our priorities in rural industries and sectors, through this and other portfolios. The biggest challenge that we face is the on-going failure of the UK Government to at least match fund pre-Brexit levels of funding from the European Union, or to provide a multi-annual funding framework that would allow us to take a longer-term view to some investments. Of course, we have no sense of what the funding future holds from the current—or any future—Westminster Government.

I know that you will want to scrutinise carefully our budget plans, but I would ask again that the committee might resolve to work with Government to support our efforts to secure the future rural funding certainty that Scotland needs and very much deserves. Thank you.

**The Convener:** Thank you. You have tried to put a positive slant on your budget, but it is a disaster. You sit on the Cabinet and lobby, I presume, for funding for the agricultural sector, but you have failed. We have a 9.3 per cent reduction in the agri budget, the biggest reduction of any portfolio, which is astounding given that agriculture is expected to deliver on biodiversity loss and climate change. Where has it all gone wrong?

**Mairi Gougeon:** I would disagree with you to a certain extent. I do not think that there is much about putting a positive spin on things. The fact is that we have had one of the worst settlements that we have seen since devolution. While we were members of the EU, we would receive a mixture of resource and capital funding. Now we are getting replacement funding only as resource, so our capital resource has been falling. As a whole, we are seeing our capital resource fall by around 10 per cent. What we have seen in the overall settlement to the Scottish Government is a real-terms cut to the budget of 1.2 per cent.

09:45

I do not think that you will find any cabinet secretary appearing in front of a committee giving evidence on their budget and ultimately being happy about the settlement that they have. It is a very difficult settlement for the Scottish Government as a whole. We have all had to take difficult decisions and make very difficult choices

within that, which is why I am here to address the committee and answer your questions.

One thing that I am pleased that we have been able to do is protect funding where it is needed most. When you look direct payments—the funding that goes directly to our farmers, our crofters and our land managers—you see that we have been able to protect those levels of funding. I know that that cash injection is vital for our rural communities.

If you look at our wider investments across the piece, you see that, in some areas, that funding has increased. The funding that we are providing in our food and drink industry, in community-led local development and in all the different areas where we have kept and maintained vital funding streams shows where our priorities have been. We continue to invest in our rural, coastal and island communities and maintain important funds, such as the marine fund Scotland, as I mentioned in my opening remarks.

**The Convener:** I do not see anywhere in the agriculture budget where there has been an increase. It is a decrease right across the board. Nothing has increased.

My understanding is that £620 million of ring-fenced money came from the UK Government, which was £595 million—or thereabouts—plus £25.7 million Bew money. The Scottish Government topped that up, giving a total budget of around £680 million. Has the UK Government's contribution, which is ring fenced, decreased?

**Mairi Gougeon:** The funding that it has provided is the same level as last year's.

**The Convener:** So, we have had the same level of funding for the past five years.

**Mairi Gougeon:** No, we have not had the same level of funding for the past five years. The funding is the same as the previous year's, but I believe that it was less in the year before that. I do not know whether Karen Morley has further information on that.

**Karen Morley (Scottish Government):** The ring-fenced funding from the Treasury was a three-year settlement figure, and 2024-25 is the last of those years. The total for that was £620 million.

**The Convener:** The ring-fenced amount is £620 million. Has that budget decreased this year? The amount for the Scottish Government has not decreased, so any reduction in the budget is a result of the Scottish Government putting less into the agri pot. Is that right?

**Mairi Gougeon:** It would be less for us. You are correct in that the UK Government has provided

the same level of funding in the past financial year and this financial year.

**The Convener:** When we see real-terms cuts of 18.3 per cent in pillar 1, a 41 per cent reduction in the agriculture transformation fund, a 22.7 per cent cut to business development and so on, that is all because of the Scottish Government contributing less to the agriculture pot, not the UK Government's agriculture settlement being reduced.

**Mairi Gougeon:** Keeping it at the same level, though, is a real-terms cut.

**The Convener:** Did you say that it was 1.4 per cent in real terms?

**Mairi Gougeon:** No, in the overall settlement to the Scottish Government, the real-terms cut is 1.2 per cent.

**The Convener:** Okay. What is the real-terms cut in the £620 million budget that the UK Government provides?

**George Burgess (Scottish Government):** I will not try to do the mathematics in my head, but, if the settlement is flat in cash terms, applying the retail prices index or the consumer prices index to it will give you the real-terms cut.

**The Convener:** This is what I am trying to work out. The cut to the budget in real terms is 9.3 per cent, but most of that cut comes from the top-up, if you like, that the Scottish Government has made in the past, not a reduction in the UK budget. Is that correct?

**Mairi Gougeon:** Ultimately, what we are getting from the UK Government equates to a real-terms cut to our budget. The vast majority of our budget comes from what we used to get when we were members of the EU, so we are largely dependent on that, as it makes up the vast majority of our funding. Of course, that has a wider impact.

The issue comes back to what I said in my opening comments about where we were at the start in relation to settlements across the piece. We are facing very difficult budget choices, and difficult decisions must be made, but all of that is exacerbated by the fact that we have a lack of clarity and no certainty on what we will receive in the future, as well as the fact that we are receiving a flat settlement from the UK Government.

**The Convener:** Yes, but we are looking at this budget, not future budgets—we will probably deal with that when we look at the Agriculture and Rural Communities (Scotland) Bill. We have seen a dramatic cut in the agriculture budget, but the majority of that has come about because of the Scottish Government's priorities, not because there has been a dramatic cut in the UK budget, which has been the same for the past three

years—apart from the £27 million increase after the Bew review. That was the point I was trying to make. Maybe you can come back to us on that.

I am interested in pillar 1 payments, which are important because they support beef, sheep and fruit and vegetable producers. There has been an 18.3 per cent cut in those payments, and it has been suggested that that is “reflecting forecast demand”. What exactly does it mean when you say that that reduction is “reflecting forecast demand”?

**Mairi Gougeon:** I would be happy to outline that. The pillar 1 funds are exactly as you have described. We have voluntary coupled support, with the beef scheme and the sheep scheme within that, and there is the fruit and vegetable aid scheme. I want to be absolutely clear that those budgets remain unchanged—they have not been cut. There is £48 million allocated to the voluntary coupled support, and £2.7 million relates to the fruit and vegetable aid scheme.

The element of that budget that has been reduced is the line that previously related to common market organisation. That budget line covered several things, including the school milk scheme and the public intervention and private storage aid scheme. To give you an example from one of those schemes, we transferred the school milk budget to education, and the scheme is now funded directly by education, with local authorities charged with delivering it. We have used the private storage aid scheme only once, in relation to pig meat during Covid.

**The Convener:** I am sorry to interrupt, but those are not pillar 1 payments.

**Mairi Gougeon:** I am talking about pillar 1 other payments.

**The Convener:** Right. I beg your pardon.

**Mairi Gougeon:** I am defining what falls within that overall budget line, so that we can be clear on where there has been any movement.

The common market organisation line had £9 million against it. That fund was unspent apart from those specific examples that I have talked about. It was felt that, rather than having a budget line against funding that had not been utilised, it was better to reallocate that resource to other areas where the funding could be spent. That is why it looks as though there has been a reduction in the pillar 1 other payments line.

**Rachael Hamilton (Ettrick, Roxburgh and Berwickshire) (Con):** Good morning, cabinet secretary. I seek some clarification on the questions that the convener has been asking.

You have said that the UK Government has cut the capital budget and that it is to blame for the

cuts that you have made to the rural budget. However, I would note that a total of £65 million has been cut from the rural affairs budget, while the capital budgets for other portfolios including health, justice and education have seen cash increases. What did you do to stick up for farmers in the Cabinet meetings on the budget, given the increase in capital budgets in those portfolios?

**Mairi Gougeon:** Again, you are not seeing that right across the piece. There is no getting around how difficult the decisions right across the piece have been with this—

**Rachael Hamilton:** You say “right across the piece”, but why did health, justice and education get an increase to their capital budgets? Farmers—and maybe you agree with me here—do provide Scotland with a public service.

**Mairi Gougeon:** Absolutely.

**Rachael Hamilton:** So, why did that budget see a £65 million cut when other portfolios did not and, in fact, saw an increase?

**Mairi Gougeon:** As I said in a previous response, part of the issue in relation to the funding that we get from the UK Government is that it does not come through as a mix of resource and capital, as it used to. Therefore, we have had a fall in capital allocation over that time.

Together with all my colleagues, of course, my job in Cabinet and within the Scottish Government is to represent the needs of the farmers, crofters and land managers of rural Scotland and to ensure that we get the best possible support and prioritise it as best we can. I believe that, with the package that we have had, the capital settlement has been difficult, and difficult decisions have been made not only in this portfolio but in other areas.

You have highlighted some of the portfolios in Government where there has been an increase, but that is not the case right across Government, and there have been very significant cuts to capital budgets in other areas. In my portfolio in particular, the situation has been very difficult; for example, we have seen quite a significant shortfall in the capital required to deliver on the woodland grant schemes. It is a very disappointing settlement as a whole, but it is my job to do what I can with the funding allocations that we have and to ultimately fight that corner.

We have made really difficult decisions, but I believe that, with this budget and the fact that we have been able to secure that resource-to-capital switch, which has enabled us to do that bit more with capital funding in what were previously unfunded priorities in the portfolio, we are delivering as best we can within the settlement that we have.

**Rachael Hamilton:** Thank you, cabinet secretary, for that positive spin from the Scottish Government, but you have not increased the capital budget in this portfolio. It has been cut by £65 million while other portfolios have seen an increase. I just do not get the spin on this; it seems as though farmers have been failed and are the scapegoats of this budget.

**The Convener:** I call Ariane Burgess.

**Ariane Burgess (Highlands and Islands) (Green):** I am concerned about the payments to fruit and vegetable producer organisations. As we have discussed, horticulture provides more food per hectare than any other forms of farming and crofting, and it is critical that we have a healthy horticultural sector if we are to achieve the Scottish Government’s agricultural vision. What are your plans for payments to fruit and vegetable producer organisations?

**Mairi Gougeon:** As I have said, within that and the other pillar 1 payments, we have £2.7 million going to the producer organisations that support our fruit and vegetable sector. I completely understand the concern that you have outlined, but again that has been identified as a key priority and we have been able to meet the needs of those programmes and to secure that funding for the interim while we look to transition to what future support might look like. That is where the £2.7 million will be critical.

**Ariane Burgess:** Thank you very much.

**Alasdair Allan (Na h-Eileanan an Iar) (SNP):** Given that the Government is working with a fixed budget, we are probably entering into a sterile debate if we are asking, as some have, why you did not argue for more from health to go into agriculture. No doubt, as we speak, there are Opposition members or other committees asking a minister why they were not arguing for more to be taken from agriculture to be put into health.

Instead, I will ask about the issue of long-term certainty that you alluded to and how there will be less of that in the environment ahead. What is the impact of that on budgeting decisions on agriculture?

**Mairi Gougeon:** It is really difficult going forward, as this is the last year in which we will have any clarity on a settlement and what that will look like. In other words, we do not know what the settlement will look like from 2025-26 onwards. We have tried to engage in those discussions with the UK Government, but that has proven very difficult. We have raised the issue on numerous occasions with the various secretaries of state and the Department for Environment, Food and Rural Affairs on the basis that there had been a commitment to discuss the intra-UK allocations of



funding support. As yet, however, the offer to have those discussions has not been taken up.

I have been in touch with the new secretary of state, Steve Barclay, on a number of occasions, but we have yet to receive a response to the correspondence that we issued and in which we tried, essentially, to reset the relationship so that we can have a positive discussion about this. That discussion has still to take place.

**The Convener:** Can I just clarify what the total agriculture budget is at the moment?

**Mairi Gougeon:** Do you mean for the—

**The Convener:** For the agriculture portfolio. It goes back to my original question about the total funding being around £680 million. What is it now? What figure are you working with?

**Mairi Gougeon:** The total for the coming financial year for agricultural support and related services is £705 million. On top of that is the rural services budget, which is £59 million. If you are looking just at the rural affairs and islands element of the portfolio, the total budget is £864.6 million, and that is for resource and capital.

10:00

**The Convener:** No doubt, you will have seen the former National Farmers Union Scotland president, Jim Walker, being particularly scathing about the budget. He had hoped that we would be looking at

“Nutrient Management Plans, Biodiversity Audits and Plans, Animal Health and Welfare Plans”

and so on

“ ... on the premise that there was additional funding for them”

to be implemented and that farm businesses would have a clear idea of what was expected of them. He is now suggesting that there is no funding and that

“In no ... shape or form will that be belatedly proposed now, not a chance. We are heading for a cliff edge beaten by sticks”.

Where is the carrot here? Given what we are expecting of farmers as we look forward with the new Agriculture and Rural Communities (Scotland) Bill and the whole range of new policies that will have to be implemented to reach our carbon or biodiversity targets, where is the funding to give them reassurance that they will be supported in meeting those targets?

**Mairi Gougeon:** First, I want to clarify that the funding for that does exist—we are continuing to fund the animal health and welfare plans, the carbon audits and the soil testing within the national test programme. Funding of £12 million

has been allocated to that in the coming financial year.

**The Convener:** It is very little, though, isn't it?

**Mairi Gougeon:** It is up against the forecast spend, and I believe that that still allows us to increase uptake from where we are at the moment. Last year, when I was before the committee, we were looking at very low figures for the number of people undertaking carbon audits and soil tests. That figure jumped up towards the end of the claim period at the end of last February, and we have seen an increase in uptake, too.

We have ensured that what we have in the budget can meet the current levels that we are seeing, but there is also capacity for uptake of those schemes. I just want to reiterate that that support is still there and I very much encourage farmers and crofters to take it up.

**The Convener:** Okay. Thank you. I call Ariane Burgess.

**Ariane Burgess:** I want to ask about the agricultural transformation fund, which has received a further cut and has now been allocated £3 million in resource funding rather than the previous £5 million in capital funding. I am interested in understanding the reason for the reduction, the thinking behind moving the funding from capital to resource and what it will be spent on.

**Mairi Gougeon:** I want to be clear about this—I know that this will have been updated since the committee saw the budget papers. When I talked about the £15 million that we have agreed with the Deputy First Minister will be switched from resource to capital, this is an example of the funding that we have been able to move in that way. The allocation is still £3 million, but it is now capital rather than resource funding. After all, that is where the greatest need is. It shows why the agreement to switch that funding has been so important.

As for what has happened with the agricultural transformation fund over the past couple of years, when it was first used, over the course of 2022-23, it was £5 million. At the time, the money came through the sustainable capital agricultural grant scheme. It was used for more efficient slurry-spreading equipment and, indeed, for prioritising that spending on slurry, given the water environment regulations that had been introduced and the requirements that farmers were being expected to meet. In the light of all of that, we felt that it should be prioritised.

However, despite its being a £5 million fund and even though £4.6 million of it had been committed, the actual spend in the end was around £3 million. Over the course of last year, we made another pot

of £5 million available to the fund. It was channelled through the agri-environment climate scheme, with the focus on slurry storage, and I think that just over £2 million was spent. Although this is a reduction, it should be seen against what we think that we can spend and what the actual spend has been over the past couple of years.

**Ariane Burgess:** Just for a bit more information, can you tell us why you took the fund out of capital and put it into resource? I understand that the overall envelope has moved, but why is it better to have it as resource for what you are trying to achieve?

**Mairi Gougeon:** I am sorry—I said that that was why we needed it as capital spending. If we wanted to fund items similar to those that we had funded in previous years, we would need that funding to be capital rather than resource.

**Ariane Burgess:** So, you moved it previously into capital to do the slurry work and now you are bringing it back into resource. What do you expect it to be spent on, now that it is in resource?

**Mairi Gougeon:** I am sorry—I know that, with the way in which it has been set out, and given the announcements that we are making today, the picture seems quite confusing. The agricultural transformation fund had been capital for the past few financial years; it was part of the resource spend this year, because of the significant constraints on the capital budget, but with the £15 million being returned and with the agreement to switch that money to capital funding, we have moved the fund from the resource line to the capital budget.

**Ariane Burgess:** So, the money is in a different budget, but you are spending it on the same thing.

**Mairi Gougeon:** It has been switched, yes.

**The Convener:** I have a very brief technical question. The regulations require 22 weeks' storage. Will there be any restrictions on claiming through the AECS budget? Will farmers who have previously claimed for slurry storage or whatever be excluded or will they be included in future schemes, now that the requirements have increased?

**Mairi Gougeon:** I think that George Burgess wants to come in on that.

**George Burgess:** I believe that you have lodged a written question on this subject, and an answer will be coming forward.

The rule about claimants only being able to get funding once has been in place for a long time. Perhaps I can explain the thinking behind it: it allowed farmers and landowners to get their business into a compliant position. If they changed their business by, say, taking on more livestock or

buying another property, such that it moved them out of compliance, that was something that they would have to be aware of at the time. Effectively, the rule was in place to ensure that the benefit was spread around as many recipients as possible.

We are still developing the rules for the scheme, but that rule has been in place for a considerable period. I am certainly aware of one case in your constituency, convener, with farmers feeling at a disadvantage as they had not realised the rule was in place when they took on additional property.

**The Convener:** That was helpful. You are suggesting that farmers who increase their businesses get one bite at the cherry and should budget for an increase in cattle or whatever, but what happens now that the regulations are changing the period of storage to 22 weeks? What if farmers are not compliant? Surely the grant should be available for them to become compliant with the increase in the regulations to 22 weeks' storage.

**George Burgess:** I think that your point about the goalposts changing in that way and compliance in that respect is very reasonable. As I have said, the rules for the future scheme are still being developed.

**The Convener:** Thank you. That was helpful.

I call Rachael Hamilton—*[Interruption.]* My apologies—Kate Forbes is joining us remotely and I did not see her waving. I will bring you in now, Kate.

**Kate Forbes (Skye, Lochaber and Badenoch) (SNP):** That is not a problem at all, convener, and thanks very much for bringing me in.

It is good to see you, cabinet secretary. I want to go back briefly to the convener's question about the budget. You said that the budget for rural and islands is £864 million. How does that compare in cash terms to last year's budget? I ask that because I assume that one of the reasons why this is such a challenging budget for rural affairs—as it is for every other area—is the inflationary environment, which is neither farmers' fault nor the Scottish Government's fault.

I will add a mini supplementary to my question. What percentage of the budget is going directly to farmers as cash in their pocket? Does that compare well with elsewhere in the UK?

**Mairi Gougeon:** First, I will outline what the budget equates to in cash terms. The total funding was £905.741 million for the previous financial year and the funding is £864.618 million for this financial year. I do not know whether that answers your question.

In relation to pillar 1, direct payments to farmers and crofters total £474.7 million. In relation to pillar 2, the funding for the less favoured area support scheme equates to £65.5 million, which is unchanged from the previous year. We have a number of other schemes that fall within that, including the crofting agricultural grant scheme. I hope that that answers your question and provides the information that you are looking for.

George Burgess wants to add to that.

**George Burgess:** I will provide a bit of further detail on the basic payments scheme that is set out in the published budget document. The budget for both last year and this year is £282 million, so the amount has been kept level. You will be aware that basic payments like that have not been preserved in other parts of the UK. In England, in particular, basic payments are on quite a steep downward taper and any money for farmers must be provided through new schemes such as the sustainable farming incentive scheme.

**Kate Forbes:** Thank you.

**The Convener:** Jim Fairlie has a supplementary.

**Jim Fairlie (Perthshire South and Kinross-shire) (SNP):** Cabinet secretary, you touched on an issue that is of great interest to me: the £65 million for LFAs. I presume that your aim is to continue that provision. We have seen a 37 per cent cut in the support payments to upland farms south of the border, and the National Farmers Union is expecting there to be a catastrophic decline in the way in which farmers can be supported in England and Wales. As a former hill farmer, I presume that the Scottish Government will continue its direction travel and carry on supporting hill farming.

**Mairi Gougeon:** Yes, you are absolutely right. I recognise how vital that support is, which is why we have maintained that funding during the current financial year.

No doubt, the committee will be aware of the information that we have published about the route map for future support. We continue to support LFA funding and will maintain our commitment to doing so until such time as we transition to new parts of the future framework.

I met the NFUS's LFA committee just before the recess to hear its thoughts on future support. I understand from visiting farmers and crofters across the country the importance of LFASS and the support that we provide for that. Maintaining that funding has been a priority.

**Jim Fairlie:** Okay. Thank you.

**Rachael Hamilton:** We know that the Scottish Government, through the Agriculture and Rural

Communities (Scotland) Bill, is planning to introduce enhanced conditionality in respect of supporting biodiversity gain and delivering a low-carbon approach to farming. However, the agriculture reform budget has been cut significantly. According to the information that this committee has, that is because the uptake in previous years has been lower than expected, as you mentioned. Why cut the budget if you are trying to get those farmers who are not currently soil testing or undertaking carbon audits to do so? Why not support those people to get up to speed so that they can be ready for the next demands that you will be placing on them in terms of enhanced conditionality? Why cut that budget? Why do you not promote those measures and thereby improve uptake?

**Mairi Gougeon:** First, it is not a case of either/or. We were talking specifically about the agricultural transformation fund, which now more accurately reflects the budget spend that we have had over previous years. Ideally, it is within everyone's best interests for us to utilise all money and budgets that we have available to us.

I have talked about how difficult the capital funding situation has been. Trying to prioritise which schemes are funded and what level of funding they should receive has been a very difficult exercise in this budget settlement. We are providing more funding for the agricultural transformation programme than we were able to spend last year.

10:15

On how we can improve uptake, we are trying hard to increase uptake, particularly in relation to the national test programme. You mentioned carbon audits and soil tests. We also have funding available for the animal health and welfare plans. We want there to be an increase in the uptake of that support. The funding is available, and it is within everyone's best interests for that funding to be fully utilised.

We are doing as much as possible to incentivise that. We have really tried to step up our communications during the past year, whether that was through the emails that we sent out or by increasing our physical presence in lots of places, such as at various agricultural shows and marts, where people could find out about the support that is available, as well as have the opportunity to discuss the route map and all the other information that we have published. There needs to be greater awareness raising of that.

When I was at the committee last year, I asked members whether there are any means of communication that we are not using or any ways that you thought that we could be communicating

better. I am more than happy to hear suggestions as to what more we can do, because we want the uptake of those schemes to increase. The budget for the national test programme allows for increased demand and for greater uptake of the schemes that we are funding so far.

**Rachael Hamilton:** I disagree, because the funding has been reduced by 40 per cent.

The 2021-22 budget allocated £51.3 million for the national test programme. How much of that was not spent, and how has that been reallocated?

**Mairi Gougeon:** Our forecast spend for the programme has reduced. Initially, £20 million was allocated for the programme and we have allocated £12 million for that for the coming year as well. The funding had not been fully utilised during the past year. I do not know whether Karen Morley knows the exact figure.

**Karen Morley:** I will find it for you.

**Mairi Gougeon:** I clarify that that funding is over three years.

**Rachael Hamilton:** Yes, it is over three years. I do not know where the £20 million figure comes from. Actually, that was for 2023-24. However, the figure is down to £12 million now.

The development support budget was cut entirely. What was the budget for, and what would be the impact of that cut?

**Mairi Gougeon:** The development support budget is for the whole modernisation programme within the agricultural reform programme. I think that that was the capital element of the funding that we had been looking at, which was sitting at around £10 million.

Initially, that budget line was for modernisation costs and potentially earmarking monies for information technology systems. As part of the agricultural reform programme, we are continuing to assess what those needs might be going forward, and we are still developing the case for that.

George Burgess might have further information to add to that.

**George Burgess:** Essentially, that was money to add to, modernise and change the IT system that we use in the Scottish Government. We are now looking to make the best use of our existing IT infrastructure, and we will be making changes to it where necessary.

As the cabinet secretary has said, we are, in essence, prioritising the money that is going out the door to farmers, crofters and landowners rather than spending that money in-house on our own systems.

**Rachael Hamilton:** How much of that £10.8 million was spent on upgrading your IT system?

**George Burgess:** A relatively small proportion of the budget was spent on that in the past year.

**Rachael Hamilton:** How much will you need to deliver an IT system for future agricultural support? How much is there for that in the budget?

**George Burgess:** There is a capital budget elsewhere that provides for the maintenance of our existing systems, and we will use that for a combination of maintenance and development of the system. That budget is around £9 million.

**Rachael Hamilton:** Is that new capital funding?

**George Burgess:** No.

**Rachael Hamilton:** Thank you.

**The Convener:** I will bring in Alasdair Allan.

**Alasdair Allan:** Is allowing farmers to develop one of the aims behind what would seem to be the policy objective of early payments or getting money into farmers' accounts early? Does that represent a departure from policy elsewhere in the UK? If so, what is the budget implication of that? What is the plan for that?

**Mairi Gougeon:** In relation to our payment strategy for the coming year, we made changes to ensure that money reached bank accounts as soon as it possibly could. Industry had called for that, and it was also a response to the impact of the cost of living crisis over the past couple of years

I think that the UK Government brought forward its initial payment schedule last year. We have brought forward our own payment schedule, and we are paying farmers at the earliest ever stage. We have done the same with other schemes such as LFASS, knowing how important it is for farmers to have that money come through at the earliest possible stage.

**Jim Fairlie:** There is no doubt that, right across the UK, budgets are being squeezed—we have heard about the 37 per cent cut in support for hill farmers down south. We are trying to reach environmental targets, but the AECS budget has taken a hit. What impact will that have on meeting the Scottish Government's objectives?

**Mairi Gougeon:** AECS is an important fund for us. Out of all the funds that we have, it is the one that delivers against the objectives on climate mitigation and the nature enhancement activities that we want to see. It is also one of the key mechanisms that we have for increasing the amount of land that is farmed organically, and it has been very successful in that regard.

In previous years, we have had to restrict certain rounds or restrict the things that we are looking to fund within that, because of various financial constraints that we faced. In the current budget—remembering, of course, that AECS contracts are essentially rolling ones year on year—just over £16 million of the AECS allocation will go on previous year's contracts that have been agreed. With the remainder of the budget that we have for AECS, I believe that we should be able to finance the vast majority of applications that came through to AECS this year.

AECS is not the only funding mechanism we have that can help deliver the climate and biodiversity enhancements that we want. We have the greening payment. We have the nature restoration fund, which sits within not my portfolio but the net zero, energy and transport portfolio. We have the farm advisory service. We have several other pots that still contribute to the overall objectives, even though they do not sit under the AECS umbrella.

**Jim Fairlie:** Are you noticing, or do you have any evidence of, farmers changing behaviour as a result of AECS not being in place?

**Mairi Gougeon:** The AECS funding is in place.

**Jim Fairlie:** Let me rephrase that. If AECS was not there, do you anticipate that farmer behaviour would change as a result?

**Mairi Gougeon:** If AECS was not there, a lot of the activities that we would like to see would not take place. Farmers and crofters might not be able to undertake certain activities if the funding did not exist for that to happen, which is why it is such an important fund.

**Jim Fairlie:** You have just said that you think that you have funding for the claims that are coming in this year.

**Mairi Gougeon:** Yes. We are still to announce the outcome of the applications for the 2023 round. We are going through the budget discussions at the moment, but, as I said, through the funding that we have allocated in the budget, we expect to be able to fund the vast majority of the applications in the 2023 round.

**Jim Fairlie:** That highlights the difficulties that you face in trying to juggle all these things and ensure that the priorities are kept in place.

Convener, I do not have anything else on that subject. Do you want me to move on?

**The Convener:** I will bring in Ariane Burgess first.

**Ariane Burgess:** I have a quick supplementary on AECS. From what I understand, AECS will be phased out and a new scheme will be put in place. Is that correct?

**Mairi Gougeon:** AECS will continue until such point as we have the future tiers of the framework in place.

**Ariane Burgess:** From talking to farmers, I know that it is quite tricky to get funding from AECS. I have heard of farmers who almost meet all the requirements but miss it by a few. You are talking about how we urgently need to get farmers to move towards climate and biodiversity mitigation, but you have a fund that makes it difficult to get funding—farmers miss out by a couple of points. Will the new scheme take that on board and be more user-friendly to apply to? We need to open the floodgates for farmers to get on board with such schemes.

**Mairi Gougeon:** Absolutely—we will make it as easy as possible. Again, that is in everybody's best interests. We do not want it to be a bureaucratic exercise and, for the types of activities that happen through AECS, we want to make any future support as easy as possible for farmers to access. Again, it is in all our best interests to do that.

The committee is currently scrutinising the Agriculture and Rural Communities (Scotland) Bill and, of course, we will be in close communication with the committee on that. There will be a scrutiny process for the secondary legislation that will contain the detail of what any future scheme would look like. AECS may not exist in the same form as it does now, but certainly we want to see the activities that are undertaken as part of that scheme to be more fully embedded within a future framework of support.

**The Convener:** I have a question, before we move on to a question from Jim Fairlie.

Research in the US has shown that doubling down on research and development funding would reduce greenhouse gas emissions, raise outputs, curb the need for land use change and reduce crop and livestock prices. There is a reduction in research and development, or research and analysis, which I think the budget line is called. What consideration did you give to increasing that, given the climate emergency and the need to go further and faster?

**Mairi Gougeon:** To be honest, I would have liked to see an increase in several of the budget lines. However, given the capital envelope and the overall funding envelope, it is about how best to prioritise within that. We have tried to minimise any reductions in those areas as far as we possibly can.

It is important to highlight the overall research programme, which has had a broad envelope of about £50 million a year, but we support other schemes that encourage research and innovation, including in farmers directly. We have maintained

the funding for the knowledge transfer and innovation fund in this budget. Again, we want to see the uptake of those funds and see that innovation, that research support and, of course, that peer-to-peer learning, which is important.

**The Convener:** Thank you.

**Jim Fairlie:** The business development budget gave rise to the food processing, marketing and co-operation grant scheme. What progress has been made on reviewing that scheme, and what are the plans for it in the future?

**Mairi Gougeon:** When I appeared at the committee at this time last year, I said that we were extremely disappointed at that stage to not be able to run the FPMC scheme over the course of the 2023-24 financial year, because we know how valued it has been by the food and drink sector. However, we have used that time to undertake a review of the scheme, as you outlined. That work was undertaken by Scotland Food & Drink and is now completed. There were several recommendations in that. One of the key findings in the report was about how valued the scheme was by those who applied to it, as I have said. We can implement a few of the recommendations in the Scotland Food & Drink report quite readily, and there are a couple of recommendations that would take a bit more work, but we have taken all of that on board.

As you have outlined, the business development support line in the budget was the one through which we previously funded the FPMC grant scheme. The funding that is available in that budget line now is for the crofting agricultural grant scheme, so that is where the biggest reduction is. However, it would be our intention to reintroduce the FPMC grant scheme if we are able to do so at any point during the year. We would like to do that if the opportunity arises, but we cannot say today that we will definitely be able to fund that.

**Jim Fairlie:** That food processing, marketing and co-operation grant scheme is vital. I have been reading stuff about Jeremy Clarkson, who is not somebody I would normally quote, talking about his Diddly Squat farm, which is making zero profit. There are protests right across Europe because of supply chain issues. The scheme is the kind of one that we want to keep encouraging, as we have done over years. I ask the cabinet secretary to have that in mind as we go forward.

I would also like to ask about the small farms grant scheme, which allowed farmers to make improvements. I think that the funding for that was cut in 2022. Has that money been used elsewhere?

10:30

**Mairi Gougeon:** To go back to your first point, I agree about the importance of the FPMC scheme. I have visited several businesses that have received funding from that in the past, where investment would not otherwise have been possible, to upgrade facilities in several ways. Those businesses would not have been able to develop without the injection of funding that we provided. The scheme has been vital in that regard, so we will look for any available opportunity to restore that funding as a priority.

We have undertaken a great deal of work on the small farms grant scheme. George Burgess will correct me if I am wrong on this, but I think that it was one of the most difficult funds to access, which meant that it was largely underspent. I think that we had £1 million budgeted for it. In the past it was a means-tested fund and, although it was to support small farmers, it was one of the hardest-to-access funds.

We therefore did an extensive piece of work with a variety of stakeholders, and I announced during the Christmas recess that we will be launching a small producers pilot fund in place of that. The funding that had been used previously for the small farms grant scheme will now be used for the small producers pilot.

We have engaged with stakeholders on what would be the best support and the most useful in helping small producers. There are a couple of abattoir projects that will be funded within that. There have been calls for a website for small producers. We are also looking at specific packages that could be used in relation to skills and further development. There are several strands within that, but it is an exciting piece of work that will potentially allow us to better utilise the funding in the way that people would like to see.

**Jim Fairlie:** I have a particular interest in this tiny wee fact. You mentioned abattoirs. What will that project look like? Small abattoirs are a big issue in really rural communities.

**George Burgess:** In the past, the FPMC scheme has provided quite a lot of support for abattoirs, large and small. Members will be aware of the difficulty that farmers and crofters who want to get a private kill done have in engaging with abattoirs. The pilot project is trying to create a better mechanism to work for farmers and crofters who might have one or two animals that they want to take to an abattoir. We are considering how that fits with the abattoir's scheduling of kill, to see whether we can get a system that works better for all concerned. That will then allow the private kill to happen and will allow farmers and crofters to get better value for their product. It is early days, but

we have enthusiasm from the abattoirs and the potential users of the system.

**Mairi Gougeon:** The abattoir piece of that work was quite substantial, and there had been surveys and other pieces of work undertaken. Certainly, when I go to events such as smallholder festivals, or when I visit farms across the country, abattoir provision is one of the foremost issues that comes out every single time. That was a key focus of the work to develop the small producers pilot fund, and it is why we have had that recommendation and why we are supporting that approach within the pilot fund. I am quite excited about the potential of the support and what it can do.

**Jim Fairlie:** Thank you.

**Kate Forbes:** To go back to a point that the cabinet secretary has already made on the £15 million that has been returned, it is encouraging to hear that that is now capital. To clarify, I am assuming that the way in which that is already split in the budget will remain. You talked about unfunded priorities in terms of agri-transformation, crofting grants and so on. Beyond its being changed to capital, will there be any other changes to the split in the budget?

**Mairi Gougeon:** I do not believe so, but I am happy to follow up with the committee in writing and to provide the information as to exactly how that £15 million has been split and where the changes in the budget lines would be, if that is helpful.

**Kate Forbes:** That would be great. Thank you very much.

I have one other point. That is obviously £15 million out of the reported £61 million, if I am right in my understanding. Is there any understanding from the Government as to when the remainder might be returned, or is that subject to future budgets?

**Mairi Gougeon:** Yes, I will be having those discussions with the Deputy First Minister. You are right that the £15 million is part of the £61 million deferred funding that has been returned to the portfolio and that we have had the agreement to switch to capital funding. That remains and means that we have £46 million outstanding. The Deputy First Minister has confirmed that that will be returned to the portfolio, but the sequencing of that and how the money can be utilised is subject to further discussion. I am happy to keep the committee updated on that.

**Rachael Hamilton:** Where is that return to the portfolio reflected in the Scottish budget lines that I am looking at right now?

**Mairi Gougeon:** As I have just outlined in my response to Kate Forbes, there will be changes to the budget lines that have been set out to show

the overall switch, but this does not change the envelope. We had had the £15 million confirmed at the time the budget was published, but it was included as resource funding rather than capital. That is what I outlined to Kate Forbes. I can outline exactly in which budget lines you would expect to see changes.

**Rachael Hamilton:** Does that come under adjustments? Where will it sit, ultimately? As a layman looking at this Scottish budget, I cannot see where, if you have already allocated it, you will reallocate it and where it will sit. Can you give me an indication of where you think it will sit?

**George Burgess:** The £15 million is in the budget now. The tables in the published budget document do not distinguish between resource and capital, but below those figures there is an “of which” heading, and below that there is a line for capital. What we will see is the capital line increase by £15 million, but some of that money is already reflected in the top of the table—for example, £3.6 million is already reflected in the AECS line at the top of the table, but that will now be capital rather than resource.

**Rachael Hamilton:** Can I be clear that, in 2024, AECS money will reduce by half from £29.6 million and be moved into capital, which is £13.8 million?

**George Burgess:** No, the £29.6 million will remain the same, but the £13.8 million that is down below will increase, because those figures at the bottom for fiscal resource, non-cash and capital are within the figures that are higher up.

**Rachael Hamilton:** Does that mean that, when we go back to the budget in the chamber, the AECS funding or that part that supports the AECS funding will reflect the fact that there is a further cut to AECS funding because you are taking it out of there and putting it into capital?

**George Burgess:** No, there is no further cut to the AECS funding.

**Rachael Hamilton:** What if it is resource AECS funding and not capital AECS funding?

**George Burgess:** It is all AECS funding, so the AECS line is the AECS line. It is a mix of resource and capital.

**Rachael Hamilton:** Why? You are going to put it in both lines, because, if you add £15 million to the £13.8 million capital funding under level 3 of the Scottish budget and you take it off the AECS funding of £29.6 million, does that not look to a layman as though you are shifting funding but are not necessarily spending it on AECS?

**George Burgess:** With respect, the tables are complicated, but I think that there is a misunderstanding about how the tables are set out. If you look at the level 3 table, you will see

there are 15 or so lines followed by a “Total Agricultural Support & Related” line. In the lines that are above that, let us take agri-environment measures as the example: that line is £29.6 million. That £29.6 million is itself a combination of resource and capital. What you have below the line that says “Total Agricultural Support & Related” are a set of lines headed up with “of which”, which breaks the total down into resource, non-cash, capital and financial transactions. That is a further analysis of what is above, so the change that we will have will be that the capital at the bottom will increase by, let us say, £15 million. The agri-environment measures line up above will not change because it already has both the resource and the capital in.

We will work with our colleagues in central finance on how this appears in the budget bill documentation. The change, as the cabinet secretary explained in her opening remarks, has taken place just in the past couple of days. We were anticipating it but could not confirm it at the time of publication of the budget documentation. However, we put the money that we hoped to change from resource to capital into the right lines in the budget, so it is less of a change than it might otherwise have been.

**Rachael Hamilton:** In a nutshell, the £26.9 million allocated in 2024-25 to the agri-environment measures will remain the same but, in effect, one half will be capital and one half will be resource.

**George Burgess:** There will be more now as capital than previously.

**Rachael Hamilton:** Where in the total Scottish budget is the other money that is to be returned of that £61 million? Where is that reflected?

**Mairi Gougeon:** The £46 million is still to be returned, so that would be in future years’ budgets.

**Rachael Hamilton:** Where do I see that? Where has it gone?

**Mairi Gougeon:** Sorry, I—[*Interruption.*]

**Rachael Hamilton:** It is not a waste of time, Ariane. It is important, because £16 million has been removed from the budget in 2024-25, and that is why this committee is here to scrutinise it. Apologies for picking you up on that, but it is important.

**Mairi Gougeon:** To clarify the point about the £61 million, the deferred funding is not a saving from 2024-25. That was from 2022-23 and 2023-24. If you remember back to when John Swinney was the finance secretary and he made the emergency budget review, that was when £33 million was announced, which was savings that had been taken. In her announcement in

November, I think, the Deputy First Minister talked about the savings and the path to balance that we had to reach this year. We are waiting for that £61 million in savings to be returned to the portfolio; £15 million of it has been returned this year, but that leaves £46 million. As I said in my response to Kate Forbes, it has been confirmed that that is coming back to the portfolio, but the sequencing of that and when it happens is still to be discussed with the Deputy First Minister.

**Rachael Hamilton:** My last, brief question is this: where did the Scottish Government find the money to pay a £3.2 million fine from the European Union over common agricultural policy payments and how will it pay the remaining £2.3 million should a dispute resolution be unsuccessful?

**Mairi Gougeon:** The fine that was paid initially came from our budget, as far as I am aware. I do not know whether George Burgess or Karen Morley would have the information as to specifically where it came from.

**Karen Morley:** The fines had been accrued for in prior financial years so, under normal accounting conventions, there has been no finding of money now. They were accounted for at the time that the penalties were incurred.

**Rachael Hamilton:** From the agriculture budget?

**Karen Morley:** From the appropriate budgets, which—

**Rachael Hamilton:** So, £2.2 million has come out of the rural affairs budget to pay for a fine.

**Karen Morley:** It would have been at the time that we had the EU income coming back as well, so there has been no reduction from the 2023-24 or 2024-25 budgets to meet this. The fines were accounted for in the period that they were brought to our attention.

**Rachael Hamilton:** I am running out of time, so I will leave it there.

**Alasdair Allan:** It has been briefly touched on, but you will not be surprised to hear me mention crofting. How many of the budget lines are seeking to meet the Government’s objectives on crofting? Can you say more about those aims, please?

**Mairi Gougeon:** Yes, I would be happy to. As I touched on in my response to Jim Fairlie’s question about business development support, the remainder of that budget is for the crofting agricultural grant scheme. We are also continuing with the croft house grants, which I believe fall under the crofting assistance budget line. I know how important those budgets are for some of the most rural parts of Scotland, particularly our island



communities, and that is why we have made it a priority within the budget to maintain that support.

10:45

The crofting agricultural grant scheme is a demand-led project. We have about 900 applications to that every year, so, of course, ensuring that we are continuing that support going forward was critical. Alongside that, we have the funding for the Crofting Commission, which we have been able to maintain to a similar level as in the previous financial year. Again, maintaining that funding has been critical so that we see continued improvement. When it comes to the Crofting Commission and the work that it is enabling here and taking forward, that support in its entirety is vital for our island communities.

**Ariane Burgess:** I want to thank the cabinet secretary for going over again in great detail the £61 million that was removed from the agricultural budget in 2021-23.

My question is this: despite the overall cut in the rural affairs budget, there was a 5.2 per cent increase in the community-led local development budget due to anticipated demand. I would be interested in hearing what the thinking is as to where that money will be applied and also whether regional land-use partnerships will feature in that, given that they are doing such important landscape-scale work.

**Mairi Gougeon:** First, I completely understand your point about the importance of the rural land-use partnerships. You will be aware that we have a number already established across Scotland and have been looking at how the development of them has been going. That falls under a different line in the budget as it is presented and it falls under the land reform element of that as well. We provided funding of up to around £400,000 a year for the RLUPs themselves, so they are continuing on at the moment, but we, of course, want to carefully evaluate how they have been performing so far to determine how we take that work forward.

You have mentioned community-led local development and the funding that we have available for that. Again, I will provide the committee with the breakdown of the £15 million and where that has been allocated. Some of it has been allocated to community-led local development to ensure that we have a capital element of funding in there. That has funded vital work across the country and, of course, is the legacy to the LEADER scheme that we had previously. It is about development in our rural and island areas. The local action groups across Scotland are the delivery bodies for that.

In my constituency, we have the Angus Rural Partnership. It has become a charity to enable it to

drive forward work with the funding that it receives. I know how critical that is for our local areas and rural communities in particular, which again is why we have prioritised that in the budget and have ensured that there is funding there going forward.

**Beatrice Wishart (Shetland Islands) (LD):** This is a supplementary to Alasdair Allan's supplementary about the capital agricultural scheme. A local crofter indicated to me that there has been no increase in the threshold of £25,000. Might that be under consideration?

**Mairi Gougeon:** If you have particular concerns that are being raised with you, I am more than happy to look into that. It is not a concern that I have had raised directly with me. You will be aware that the Minister for Energy and the Environment has responsibility for crofting, and I do not know whether that issue has been raised with her.

With some of the crofting schemes, we look to make improvements where we can. If you look to the croft house grant as an example of that, we have increased the grant rate for that and we have also looked at introducing measures for energy efficiency that did not exist previously. If there are adjustments that we can make within that or if that is something that we need to look at, I am more than happy to follow that up with the Minister for Energy and the Environment and consider it further.

**The Convener:** Cabinet secretary, Stuart Goodall from Confor congratulated the Government on its targets to increase woodland creation, but the amount of woodland that has been created has fallen over the past five years. We are now looking at a massive cut of more than £32 million to Scottish Forestry's grant budget, which, in the words of Stuart Goodall,

"will only serve to make the gap between targets and delivery ever wider. A bad situation will become worse."

He goes on to say:

"A cut of the scale proposed will lead to job losses in struggling rural areas, destruction of millions of young trees and a blow to sector confidence that will take a long time to recover."

Why on earth is there such a massive cut to that budget? Will the Scottish Government be able to meet its forestry ambitions?

**Mairi Gougeon:** The target in the climate change plan was to increase woodland creation to 18,000 hectares of planting this year. To be perfectly frank with the committee, given our levels of funding, we will be unable to meet that target, which is particularly disappointing. I completely understand Stuart Goodall's comments and how frustrating that is for the forestry sector, especially given that, because we did not meet our planting

targets last year, we held a forestry summit towards the end of last year to look at the issues that were preventing us from reaching our targets and at the barriers and challenges that the sector was coming up against. We made a number of changes to the forestry grant scheme, and we increased rates to encourage more agroforestry and more trees to be planted on farms.

Obviously, I did not want us to be in a position in which we are looking at that level of cut to the forestry budget, and I know that that is certainly not what the forestry sector wanted. As I said, I understand Stuart Goodall's comments in that regard.

What is important is the work that we do from here. The forestry summit that we held was valuable in many ways, so we need to look at what work we can do with the available budget, which should enable us to plant roughly the same amount as we planted last year or slightly more than that. We need to think about how we best utilise that funding.

However, when it comes to overall capital funding, if we were to provide more funding for forestry, what other capital budgets would we cut instead? Difficult decisions have had to be taken. As I said, I certainly did not want to be in this position when discussing the issue with the committee today.

**The Convener:** Alastair Seaman from the Woodland Trust has suggested that

"Creating new woodland and protecting what we've already got is one of the simplest and most effective responses we have to the climate and nature crises."

Almost daily, we hear your colleague Màiri McAllan talking about the crisis and emergency that we face, so surely you are getting your priorities wrong by making such a massive cut in the budget for woodland creation.

**Mairi Gougeon:** It comes back to the point that, if we were to fully increase that budget, where would we take the capital funding from? As we have talked about today, each fund is vital in its own area.

I agree with the comments that you have just read out. The investment that we are making in the Atlantic rainforest—about £4.5 million this year—will help us to do exactly that work. It is about using our resources to manage our invasive species and best protect that resource.

We have done a power of work in relation to forestry. We can look at how the industry has grown—I think that we were still responsible for about 62 per cent of all planting in the UK last year. We want to ensure that we build confidence in the sector and a future for it, but there is no getting around the fact that there is a big cut to the

capital budget for forestry. We have £27 million available for new planting this year, so we must utilise that as best we can to ensure that we get trees in the ground.

**Kate Forbes:** On a more general point, are you content that we are on track to meet our planting targets? I am conscious that, at the end of the day, the debate about the budget is about whether we can achieve our aims and ambitions. The Government has very ambitious planting targets that we are required to meet.

**Mairi Gougeon:** We have very ambitious targets, but, as I outlined, our available capital budget for new planting is not sufficient to enable us to meet the target that we set for the coming year. We had hoped to meet our target in the climate change plan of 18,000 hectares of new planting this year, but our current capital budget will not enable us to do that.

**Beatrice Wishart:** In last year's budget, the marine directorate received a £14 million increase in its budget allocation. At the time, you indicated that the extra funding was to increase capacity to deal with the Government's ambitions for offshore wind and for highly protected marine areas. Given that the proposal for HPMA's has been abandoned, how will the funding that was allocated to HPMA's be redistributed?

**Mairi Gougeon:** The reduction in the marine directorate's budget is, in part, due to the fact that we are not proceeding with the proposal for HPMA's. We have best utilised that funding in taking forward our priorities for marine protection as a whole. My colleague Màiri McAllan led on the HPMA policy and leads on the marine environment.

Our priority remains to deliver the fisheries management measures for the marine protected area network and the priority marine features. That, in and of itself, is no small exercise. We are looking to implement measures at about 160 different sites, so there will need to be extensive stakeholder consultation as part of that process. Our funding for the marine environment is now being prioritised on ensuring that we deliver on those measures and the previous commitments that we have made.

I do not know whether David Signorini wants to add to that.

**David Signorini (Scottish Government):** I agree with the cabinet secretary that the funding is for marine protection as a whole. HPMA's were one option, but we are still taking forward work on marine protected areas and the priority marine features.

**Rhoda Grant (Highlands and Islands) (Lab):** When do you expect that consultation to start, and

what form will it take? A lot of relationships need to be rebuilt to ensure that everyone is happy and on board with future processes.

**Mairi Gougeon:** You are absolutely right. This has been a long on-going process. There are proposals relating to offshore MPAs as well as to inshore MPAs and priority marine features. I am sure that David Signorini will correct me if I am wrong, but I believe that the consultation is due to commence towards the end of this year. I think that that is the current timescale.

**David Signorini:** Yes.

**Ariane Burgess:** The budget documents state that the marine directorate is delivering savings through recruitment controls, by maximising income streams and by achieving greater operational efficiencies. I am interested in what is meant by “maximising income streams” in this context.

**Mairi Gougeon:** The marine directorate’s income streams come from commercial science—which brings in, I think, more than £3 million—and marine licensing fees. I think that there is another income stream that I am missing. I will hand over to Dave Signorini, who will be able to give a bit more detail on the level of funding that we receive through those streams and how some of those areas will grow in the future as a result of offshore wind developments.

**David Signorini:** The cabinet secretary is right: we generate income through commercial science, using our facilities in Aberdeen, and we receive licensing fees. The third category is energy consenting fees. The licensing fees and the consenting fees create demand, so it is more of a cost-neutral situation in which we use that income to meet demand for consenting and licensing.

**Ariane Burgess:** Could you say a bit more about the recruitment controls and how the directorate achieves greater operational efficiencies?

11:00

**Mairi Gougeon:** Again, Dave Signorini will have more detail on that. It is fair to say that there has been a fair amount of transformation in the marine directorate, with a focus on reducing costs where possible.

**David Signorini:** One of the main indicators is the number of staff in the marine directorate. The number of full-time equivalents has gone from 825 in December 2022 to 760 in December 2023. That represents a fall of between 5 and 10 per cent through restructuring and bearing down on staff costs.

That has been matched by looking for ways to be more efficient on the compliance side. We are looking to maximise the use of our assets, including our marine protection vessels. We are using more intelligence-led and risk-based approaches to compliance in order to get the most value for money.

**Alasdair Allan:** What support for science and enforcement is provided in the budget? What changes have you had to make?

**Mairi Gougeon:** In relation to science and enforcement, when I appeared before the committee previously, I spoke about our science and innovation strategy, which was launched just last week in Aberdeen. The strategy sets out six outcomes that we want to achieve by best focusing our resources on science and maximising the value of that resource. The marine directorate uses world-leading marine science, so we need to utilise that resource as best we can. A big part of that involves collaborating with others, including research institutions and academic institutions. We should look more widely within Scotland, as well as internationally, to see how we can work collaboratively.

With regard to the directorate’s overall funding for marine science, about £9 million relates to the science around fisheries. The vast majority of that funding—between £6 million and £6.5 million—is for the two research vessels that we use for our work.

Another critical part of the marine directorate’s work relates to compliance and enforcement. We have, I think, 18 coastal offices, two surveillance aeroplanes, three MPVs and two rigid inflatable boats that we can utilise as a resource. The overall budget for enforcement and compliance is about £30 million, of which just over £11 million is for our MPVs. That level of investment is broadly similar to what was provided over the previous financial year.

**Alasdair Allan:** On the subject of the marine directorate’s major research vessels, is an element of a spend-to-save approach required for the future? Are you making plans for how the vessels might have to be maintained or replaced in the future?

**Mairi Gougeon:** Like all vessels, MPVs have an overall lifespan, so we have to factor that in to our planning. Our research vessels are very specific—the Scotia is one of our key vessels—so we must ensure that we have such resources in the future. Those considerations, of course, form part of our future planning.

**Rhoda Grant:** I will ask a quick supplementary on that. I have been involved for many years in pay settlements for Marine Scotland mariners. They are significantly lower paid than other

mariners who are employed through the public purse. What impact will the budget have on a pay settlement for them?

**Mairi Gougeon:** I ask Dave Signorini whether he has more information on that.

**David Signorini:** I do not have any further information relating to that matter. I can say that pay negotiations for the Marine Scotland staff are part of the pay negotiation for Scottish Government staff.

**Mairi Gougeon:** I would be happy to follow up with you specifically or to provide the committee with further information relating to that.

**Rhoda Grant:** Can you give us reasons for the 50 per cent cut in harbour grants? How will that impact on harbours, in relation to fishing, after storm damage? Most harbours are multipurpose, so that will also have an impact on infrastructure for ferries and renewables.

**Mairi Gougeon:** Absolutely. I have already outlined in quite a lot of detail the significant capital pressures that we are facing. That fund can vary highly from year to year, of course, depending on storms and weather events such as we have had. If you look at last year, you will see that we spent only £84,000 from within the overall envelope of £1 million of funding. The situation is also highly variable on the basis of where storms occur, as the ports and harbours on the east coast tend to be more exposed than those on the west coast.

We can, we hope, utilise the available funding, should there be other such events, but again I say that it can be a variable fund. It has been reduced due to the pressures that we are facing, but it had been underspent over the course of the previous financial year. We will have to continue to monitor that closely.

**Rhoda Grant:** I am aware that, for instance, Wick harbour needs substantial investment that would have been coming out of the funding in the current financial year. Did you look to make that underspend available to Wick harbour?

**Mairi Gougeon:** I will need to follow up on that directly and look into the circumstances. I am not able to say right now whether there has been communication on that or what involvement there has been. Perhaps Dave Signorini has more information on that.

**David Signorini:** I can definitely follow up on Wick harbour. We anticipate spending about £900,000 this year, some of which is a direct result of storm Babet, which was predominantly an east coast storm. We are not anticipating a big underspend this year, because we have been working with some harbours on emergency repairs from November onwards.

**The Convener:** Cabinet secretary, you will be pleased to hear that we are moving on to the final few questions. The next one is from Alasdair Allan.

**Alasdair Allan:** I will ask first about funding for the islands programme. It is welcome that, despite the capital climate, there is capital spend available, but can you say more about the budget lines and how they are being utilised for the islands programme, please?

**Mairi Gougeon:** I am happy to do so. I understand that the committee will be disappointed that it looks like a cut on the previous year's funding; of course, the funding is lower. As I said the last time that I appeared at the committee, when you look at the capital spending review and the overall allocations, you will see that nothing had been spent against the islands programme. That is why I am delighted that we can, in spite of the very difficult financial circumstances that we are in, particularly with our capital budget, continue with the islands programme for the coming year, including providing vital funding for the carbon-neutral islands project.

On overall funding for the islands, £1.5 million in the islands programme has been allocated for resource funding and £3 million has been allocated for capital funding, and for the carbon-neutral islands project we have allocated £0.9 million resource funding and £1.3 million of capital funding. Taking those two programmes as a whole, there is an overall funding envelope of £6.7 million for the coming financial year.

**Alasdair Allan:** Are there any budgets outwith those that you can say anything about that are relevant to the Government's aims for the islands?

**Mairi Gougeon:** Absolutely. Within my broader portfolio, we can look at spending that will be relevant. I was asked a question earlier about funding for crofting, which is, of course, a vital and important spend for our island communities. We also have funding for the islands growth deal, which is developing and delivering some very important projects.

On wider spend across the piece, I come to the committee every year and talk about the national islands plan, which ultimately outlines and showcases how every portfolio is delivering for the islands against the strategic objectives that have been set out in the islands plan. It is not just funding through the islands programme that is relevant: various other funds are relevant—for example, housing, health and education funding—and will have an impact on our islands.

**Alasdair Allan:** Obviously—you would expect me to point this out—islands have very distinctive needs. Are we getting nearer to understanding of that being mainstreamed across departments?

**Mairi Gougeon:** I would like to think that we are. I think that I have said to the committee previously that our having an islands team that works extensively across and with other portfolios in the Government has been critical in helping to develop and further that understanding. It is built into decisions that are taken within various portfolios and there is engagement right from the outset. I do not know whether Erica Clarkson wants to add to that.

**Erica Clarkson (Scottish Government):** I will not add a great deal, but I thank Alasdair Allan for the question. I think that I have previously answered a similar question at this committee. We work extraordinarily hard to make sure that islands' needs are recognised right across the Scottish Government. The whole team is very committed to doing that.

Through legislation, we have the added benefit of island communities impact assessments, so we have a tool that we can take to other areas across the Scottish Government in order to make sure that they are considering, within the work they are doing, the unique island needs that you have highlighted.

**Rhoda Grant:** When the island bond policy was shelved, we were assured that the £5 million would stay within the Scottish Government budget to deal with depopulation. Where is that money within the budget, and what other specific moneys are being set aside to deal with depopulation of our islands?

**Mairi Gougeon:** For clarification, I know that that was an ask of the committee, but, at the time when we were considering the policy, there was not a £5 million allocation in the budget for that year to develop the policy, because we were undertaking the initial work and engagement on the islands bond.

Initially, there was a £300,000 budget allocation for the islands bond policy. From the extensive engagement that we undertook, we heard loud and clear that it was not something on which island communities wanted to move forward. We utilised the funding that was available at that point to deliver the practical policy test, which I think I have talked about previously in the committee. The decision was based on the outcome of engagement that took place on the islands and on ideas that people thought would help to tackle issues such as depopulation.

Within that, we had about 11 different projects under way. I discussed previously in committee a piece of work that had been undertaken. The biggest portion of the funding—I think that it was about £250,000—was for work on a skills and population pilot that was undertaken with Skills

Development Scotland, Highlands and Islands Enterprise and various local authorities.

I am sure that Erica Clarkson can come in with more information. Evaluation of that work is still to take place and will soon be under way. That work was done in three local authority areas and looked at bespoke solutions that could be created around skills. Erica Clarkson might have more information about those projects.

**Erica Clarkson:** I can give a little bit more detail. The three council areas were Argyll and Bute, North Ayrshire and the Western Isles. We worked closely with the partners that the cabinet secretary mentioned to make sure that the project was a success. We intend, subject to the cabinet secretary's approval, to evaluate that work in the coming financial year. That will allow us to consider the impact of the work and to decide whether there is value in rolling it out to more areas.

11:15

**Rhoda Grant:** So, you are telling us that the £5 million that was set aside for the islands bond is no longer in the budget to address depopulation and that it was not a commitment?

**Mairi Gougeon:** The £5 million was an overall figure that would have been used for islands bonds had they progressed. In developing the policy, we had to go through the engagement exercises.

As I was saying just now and as we have talked about previously, we are looking at these decisions in an annual budget cycle. If we had decided to pursue that policy and had proceeded with it, the budget as you see it today and the priorities within it would probably have been different. However, it was decided that we would not move forward with that policy. That is why we undertook the work on the different tests, which are helping to inform the interventions that will best address depopulation.

We are still waiting on the publication of the addressing depopulation action plan, which is being led by the social justice portfolio. I am responsible for the rural and islands element of that plan, and we hope that we will be in a position to publish it shortly.

It has been important for us to listen to that engagement and then to undertake this work, which will help to inform our actions as part of that plan so that we know that the interventions that we make to address depopulation will be meaningful and have the impact that we all want.

**Rhoda Grant:** Why has the addressing depopulation action plan been delayed?

**Mairi Gougeon:** We have to make sure that we get the addressing depopulation action plan right, that it is in as strong a place as it can be and that we have the right actions within it. I am happy to write to update the committee on the timeframes for when it will be published. Again, I hope that it will be published shortly.

**Rhoda Grant:** On the £250,000 for looking at employment and retention on the islands, is there something similar in the budget this year? We are very aware that island businesses are struggling because of the unreliability of the ferries. What money is there to encourage those businesses to stay on island?

**Mairi Gougeon:** As Erica Clarkson said, we are still to undertake the evaluation of that project. However, this is where the funding of other elements that we have undertaken has been important. We have helped to fund the community resettlement officer positions as part of that work.

Funding for the addressing depopulation action plan does not come just from interventions from my portfolio; the social justice portfolio also contains funding for that. Again, that is all part of our considerations of what we are looking at as part of the addressing depopulation action plan.

**Rhoda Grant:** How can we measure the amount of money in the budget that is being invested in repopulation?

**Mairi Gougeon:** It is in the overall national islands plan and the report that we can do on that. Of course, addressing depopulation does not come down to just one specific intervention. You will see that spend right across portfolios in what we are doing in housing, skills, transport and other areas.

We will try to capture that within the addressing depopulation action plan, which will set out the different actions that we are taking across Government to address some of the challenges. I am afraid that I do not have a straightforward answer, because all portfolios have to work on it together. That is why the majority of portfolios are represented on the population task force—because it is within everyone's interests and we all have a part to play in delivering on that. However, the detail will be in the document that we will publish.

**The Convener:** Cabinet secretary, could you give us a little bit more information about what the £1.5 million revenue funding element of the islands plan budget is?

**Mairi Gougeon:** Because we have working on the budget and looking at what we are able to fund in relation to capital, we are still to have those discussions and to finalise how that resource funding could best be utilised. In previous financial

years, the islands cost crisis emergency fund contributed to that. However, we will have those discussions with local authority partners to see how best we can utilise the revenue funding going forward.

**Ariane Burgess:** Given the significance of the carbon-neutral islands project for Scotland's net zero ambitions, I am interested to hear about the thinking behind the reductions in the budget from last year to this year.

Having met some of the amazing young development officers, I can see how important their roles are and the challenges that they face because of the one-year funding cycles. I had a conversation with one of the officers, who described the situation as not being sustainable for them because they are making major life considerations, but they are not sure if they will be employed. It is important that we are clear with those people, who are doing incredible work on amazing projects, what the future will be for them.

**Mairi Gougeon:** You are right and I completely understand why they would feel like that, being in that position. Unfortunately, we do go through these annual budget processes. You are also right about how vital their role has been. The project is successful, and I hope that it will continue to be successful. A lot of that success is down to the groundwork that the community development officers have put into making it a success and ensuring that we have true community engagement on the ground as well as buy-in to the process. We will continue to fund the programme. We recognise how important the roles and the jobs of the development officers are, so I will strive to offer them as much security as I can.

Within the budget as it is set out, there is a fall in the resource funding. Part of the reason for that is that there has not been as much requirement for resource funding because of the stage the project is at. All the carbon audits for the islands have now been completed. The community climate change action plans have been published and some projects are in the middle of being delivered.

The key focus of the next stage of the project is about the investment strategies and how we can look to leverage in and make the most of other sources of funding. That will be a critical piece of work.

One good thing about the funding that is available this year is that there is a slight increase in the capital funding, which I hope will be of benefit to the overall project. However, it is one thing that is proving to be successful. We have seen it develop and that is down to the work of the community development officers. I want to make sure that the project continues, because it gives us such a good platform.

We are now considering how we can share the learning, and Erica Clarkson might want to add something about that. It has been a critical part of the project from the start. It is not just for these six islands; it is about how we can share the thinking and the progress with other islands, as well as looking to share it internationally.

**Erica Clarkson:** I agree with all of that. I can also offer you some reassurance about the development officers. My team frequently works with them, one to one, to give them as much certainty as we can about the funding cycles and future funding, because we recognise that they are at the heart of the carbon-neutral islands project.

On the cabinet secretary's final point about the further roll-out of the project, we will be moving into the phase of working with our partners to understand the best way to do that, and we will try to find the most pragmatic way to share the learning. That will be a target for the project in the coming financial year.

**The Convener:** Our final question comes from Rhoda Grant.

**Rhoda Grant:** My concern is about the Highlands and Islands Enterprise budget. This year, we see another large cut following year-on-year cuts during the past decade. Given the state of the economy and the need to repopulate and encourage population retention in the Highlands and Islands, what impact will those cuts have?

**Mairi Gougeon:** I do not have the exact information about the HIE budget. It is not an area that falls within my portfolio. I would be happy to follow up with more information about it.

As I have said about other parts of the budget, and particularly in relation to our islands, HIE does an important job, which is highly valued. HIE is our partner in a number of pieces of work, some of which I have touched on today. However, we cannot look at each of these things in isolation; it has to be about how we work across the piece. It is not down to one agency or one portfolio to deliver for our islands and ensure that we are addressing the challenges there. It takes cross-Government working and approaches to deliver. Again, I am sorry that I do not have the specific details about that with me, but I am more than happy to follow it up.

**Rhoda Grant:** Do you have concerns about those cuts, given the impact that they will have on your area of responsibility—*islands, land reform, and the social and economic impact of fishing, farming and traditional industries?* It all makes HIE less able to act and build upon those economic drivers.

**Mairi Gougeon:** I absolutely have concerns about it, but I come back to the point that I made

at the start of the meeting. I am not happy with the budget settlement that I have. Ideally, I would love to plough more funding into some more of these areas. The fact is that we have the envelope that we have. There are similar challenges across Government, and I know that none of these decisions are easy. Of course, it concerns me.

Some of the cuts to my capital budget also concern me, but, ultimately, we have to try to find a way to work within the envelopes that we have, and that will be no different for HIE. I will work with HIE and with Neil Gray, the Cabinet Secretary for Wellbeing Economy, Fair Work and Energy, to make sure that we are still maximising the positive impact that we can have on rural and island areas.

**The Convener:** Cabinet secretary, that concludes our evidence session. Thank you very much for your attendance and for that of your officials.

I suspend the meeting until 11.30.

11:27

*Meeting suspended.*

11:31

*On resuming—*

## **Subordinate Legislation**

### **Meat Preparations (Import Conditions) (Scotland) Amendment Regulations 2023 (SSI 2023/367)**

### **Conservation of Salmon (Scotland) Amendment Regulations 2023 (SSI 2023/372)**

### **Bovine Semen (Scotland) Amendment Regulations 2023 (SSI 2023/370)**

**The Convener:** Our second item of business is consideration of three negative Scottish statutory instruments. Do members wish to make any comments on the instruments?

**Ariane Burgess:** I have a comment on the Conservation of Salmon (Scotland) Amendment Regulations 2023. I agree with the SSI but I would like to note something for the record.

A majority of respondents to the consultation on changes to river grading want urgent action to be taken on other pressures on wild salmon, including aquaculture, habitat degradation, low water quality and pollution. A Just Economics report attributed the deaths of 71,000 wild salmon in Scotland each year to fish farming. As we are allowing increased catching and retention of wild salmon in seven rivers, it is even more important that we act on the primary pressures that are affecting wild salmon populations, including salmon farming, as has been called for.

**Rachael Hamilton:** I have no objection to the Conservation of Salmon (Scotland) Amendment Regulations 2023. However, having looked at the consultation responses, like Ariane Burgess, I find that they do not take into account the fact that the spring run has collapsed and that it could have a huge effect on jobs, livelihoods and the rural economy. It also does not take into account predation from seals or invasive species such as goosander. One respondent said that the count is relevant because numbers are reducing so dramatically. As a committee, we need to establish the link with the Scottish wild salmon strategy, align river gradings with the strategy's objective and look at the SSI further.

**The Convener:** Thank you. As there are no further comments, that concludes today's business.

*Meeting closed at 11:33.*



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