

# Finance and Public Administration Committee

7th Meeting 2024 (Session 6), Tuesday 6  
February 2024

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

### Purpose

1. The Committee is invited to take evidence in relation to the Financial Memorandum (FM) on the Agriculture and Rural Communities (Scotland) Bill on Tuesday 6 February from the following Scottish Government officials—
  - John Kerr, Deputy Director, Agriculture Rural Policy Division,
  - Mandy Callaghan, Deputy Director, Agriculture and Land Transition
  - Karen Morley, Head of Finance, Rural Payment and Inspections Division, and
  - Ewen Scott, Branch Head Agriculture Bill.
2. The purpose of this session is to review the potential costs associated with the measures introduced by the Bill, as set out in the FM, and to explore the issues raised by stakeholders in written evidence to the Committee.

### Background

3. The [Agriculture and Rural Communities \(Scotland\) Bill](#) was introduced on 28 September 2023. Under the Bill, Scottish Ministers will be required to prepare a five-year Rural Support Plan, to include details of forestry, farming and rural development support. The Bill gives Scottish Ministers the power to create a new support framework through secondary legislation in order to provide financial and other support.
4. The Bill also makes changes to the Agriculture (Retained EU Law and Data) (Scotland) Act 2020. It allows Scottish Ministers to change, extend or end Common Agricultural Policy (CAP) legislation as it applies in Scotland. If introduced, the Bill would also allow the Scottish Government to introduce training requirements for farmers and other workers. The regulation of animal identification would also be updated.
5. The Bill is divided into five Parts, as noted in the [explanatory notes](#)—
  - Part 1 sets out the key objectives of agricultural policy and imposes a duty on the Scottish Ministers to prepare and lay before the Scottish Parliament a

five-year Rural Support Plan setting out the strategic priorities of the Scottish Ministers for that period.

- Part 2 confers the power on the Scottish Ministers to provide support for the purposes set out in schedule 1 and makes a range of provisions in connection with the support framework.
  - Part 3 makes provision enabling the Scottish Ministers to amend and adjust the enactments which contain the CAP rules.
  - Part 4 contains a variety of measures relating to agriculture, including a power for the Scottish Ministers to impose continuous professional development (CPD) requirements, and the identification of animals.
  - Part 5 contains general provisions that apply to the whole Bill, including interpretative provisions and commencement.
  - Schedule 1 sets out the purposes for which the Scottish Ministers may provide support.
  - Schedule 2 contains a variety of repeals and minor and consequential amendments. Many of the repeals relate to spent (i.e. no longer relevant) enactments.
6. The Presiding Officer has ruled that the Bill requires a financial resolution. Crown consent is also required. The Parliament has agreed that Stage 1 should be completed by 29 March 2024. A SPICe briefing on the Bill has been published and is available on the [Scottish Parliament website](#).
7. The Lead Committee for the Bill is the Rural Affairs and Islands (RAI) Committee. The Committee's call for views on the general principles of the Bill received 72 responses, which are available to view on [Citizen Space](#). The RAI Committee has to date held five evidence sessions<sup>1</sup> on the Bill between November 2023 and January 2024. It will take evidence from the Cabinet Secretary for Rural Affairs, Land Reform and Islands on 21 February 2024.
8. The Finance and Public Administration Committee ran a call for views on the estimated financial implications of the Bill as set out in the FM, which ran from 27 October until 24 November 2023. The Committee's call for views on the FM received 12 responses, which are also available to view on [Citizen Space](#).
9. [Rule 9.3 of Standing Orders](#) states in relation to Financial Memorandums that:  
 "2.A Bill must on introduction be accompanied by a Financial Memorandum which sets out best estimates of the costs, savings, and changes to revenues to which the provisions of the Bill would give rise, and an indication of the margins of uncertainty in such estimates. The Financial Memorandum must also include best estimates of the timescales over which such costs, savings, and changes to revenues would be expected to arise. The Financial Memorandum must distinguish separately such costs, savings, and changes to revenues that would fall upon—
- a. the Scottish Administration;

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<sup>1</sup> Official Reports of these meetings are available here: [29 November 2023](#), [6 December 2023](#), [13 December 2023](#), [20 December 2023](#), and [31 January 2023](#)

- b. local authorities; and
- c. other bodies, individuals and businesses.”

10. The accompanying [Guidance on Public Bills](#) notes that: “the Financial Memorandum should explain how these costs, savings, and changes to revenues arise, and what the implications are for the Scottish Consolidated Fund. For example, provision for a new or modified tax raising power could, assuming the power is used, significantly increase or reduce the amount of revenue paid into the Scottish Consolidated Fund. The discontinuation of a service or dissolution of an organisation could present potential savings to budgets and the Financial Memorandum should set out best estimates for these savings.”

## Financial Memorandum

11. The [FM for the Bill](#) provides estimates of potential costs and savings arising from the Bill as they apply to the Scottish Administration, Local Authorities, and other bodies, individuals and businesses, as detailed on pages 12-17 of the FM.

## Future Support Framework

12. As explained in the FM, the Bill creates powers that will facilitate the adoption of a four-tiered approach to deliver the Future Support Framework. Though the Bill itself does not provide detail regarding the four-tier system, the FM states that “it is envisioned such a tier system will be utilised in the future and costings are therefore provided on this basis”.

13. The outline of the four tiers included in the FM is as follows—

- Tier 1 (Base): Intended to “provide a level of continuity of income support to those managing land for agricultural production in exchange for recipients meeting minimum levels of agricultural activity and minimum standards.”
- Tier 2 (Enhanced payment mechanism): intended to “incentivise farmers and crofters to go beyond the base level of environmental performance, directly linking the level of additional enhanced payment to the climate and nature actions/outcomes undertaken/achieved by the business to drive the outcomes set out in the vision particularly the environmental performance of their businesses.” The FM notes that measurement, recording and verification mechanisms must underpin the Enhanced Payment in order to show they are delivering the intended benefits and to demonstrate value for money use of public funds.
- Tier 3 (Elective): This tier is intended to provide “a range of support mechanisms to deliver targeted support for specific outcomes or for support to be provided for specific geographies or sectors or particular cohorts of recipients/projects in order to achieve the outcomes set out within the agricultural vision.”

- Tier 4 (Complementary): Intended to “complement Tiers 1-3 delivering access to support and advice, as well as continuous professional development”.
14. The FM notes that the precise split of funding across the tiers is yet to be determined and this is “a key component of the co-design work currently underway”. It states that, broadly, the Scottish Government “intends to maintain underpinning support through base payments (Tier 1) and universally accessible support for land managers undertaking climate and nature actions through the enhanced mechanism (Tier 2) and to do so at similar levels to current direct support,” and to then allocate the remainder of available funding to Tiers 3 and 4.
  15. The FM goes on to state that “the final decisions on the allocation of funding across the tiers will be subject to a value for money assessment on how to best achieve the outcomes set out in the vision for agriculture and impact assessments of the effect a shift of funding will have on the sector, with a particular focus on ensuring a Just Transition for those currently involved in farming and land management”.
  16. In response to the Committee’s call for views on the FM, several respondents highlighted that the total funding available for the future policy and how it would be allocated to tier one was only revealed when the FM was published, with the RSPB noting that “the FM was the first time we are aware of that the Scottish Government has publicly set out any assumptions about future farm funding relating to the Bill.”
  17. Nourish Scotland wrote that the FM “appears contradictory in what it says. On the one hand it states that the precise split of funding across the four tiers is yet to be determined and on the other it states that the funding for Tiers 1 and 2 is likely to be maintained at similar levels to current direct support. The latter implies some funding decisions may already have been made by government – although not necessarily made public - and leaves us somewhat confused as to the decision-making process from here on in.”
  18. Several submissions highlight concerns regarding a continuation of the current distribution of funding. The RSPB stated that, under the current system of area-based direct payments, “a relatively small number of businesses receive most of the support. The top 1% of recipients take 10.3% of the budget and the top 20% of recipients take 63% of the budget, while the bottom 40% of recipients only receive 4.8% of the budget.”
  19. The Landworkers’ Alliance stated that the continuation of area-based direct payments constitutes “an unacceptable use of public funds”. Several other submissions note that the Scottish Government’s own analysis highlights issues arising from a base payments system. Quoting from the Scottish Government’s analysis, the RSPB stated that—

“the published evaluations and assessments find:

most CAP funding under the 2014-20 round did not deliver the intended benefits or value for public money because:

- direct payments were not targeted or means tested
- the benefit did not necessarily go directly to the farmer
- direct payments were found to reduce innovation, structural development, and productivity growth
- direct payments had little environmental benefit, and in some cases may have had a negative impact
- Greening and Less Favoured Area Support Scheme have been found not to deliver as effectively as possible on their stated objectives
- some small schemes, such as Agri-Environment Climate Scheme, have been found to have a positive impact, though limited by budget or uptake
- clear SMART objectives should be defined in future, to allow development of a future policy based on evidence and lessons learned from previous schemes.”

20. The Association stated that “the process of replacing the EU Common Agricultural Policy (CAP) offers an opportunity to improve upon the current funding model, particularly on the use of direct payments.”, and advocate for a reduction in the amount of funding allocated to Tier 1, and suggest that the Tier 1 base payment should be phased out over time”. Support for a reduction in the amount of Tier 1 funding was echoed by several other respondents, while Nourish Scotland suggested that future allocations should be decided on an outcomes basis.

21. However, Scottish Agritourism stated that “core funding for agriculture to produce food is essential in Tier 1, and the National Farmers’ Union (NFU) supported the indication that the majority of funding would be allocated to Tier 1 and Tier 2.

22. Several respondents said they wished to see multi-year funding commitments. The NFU for example stated that “a multiannual commitment to future funding, based on the same timescale as the Rural Support Plan (RSP), would provide certainty for farm businesses and deliver a greater foundation for success going forward” and that “multiannual ringfenced funding commitment would be welcomed on the face of the Bill.”

## Costs to the Scottish Administration

23. Table 1 of the FM outlines the CAP Funding/Future Support Framework spending, other existing financial support provided to the agriculture sector from the Bill, existing costs to the Scottish Administration, and transition costs to deliver the Future Support Framework, broken down by year for 2023-2027. A copy of the table is available at Annexe A.

24. As noted in Table 1, total costs for the Scottish Administration are estimated to be £837.4m in 2023-24, and £839.4m by the end of the anticipated transition period in 2027-28.
25. The FM does not provide detail regarding the potential impact of future inflation on funding. It notes that “all future budgets, with the exception of transition costs, are retained at 2023-24 budget levels and will be subject to affordability and inflationary increases”, and Table 1 assumes the same level of total financial support to the sector until 2028.
26. The FM states that future administrative costs under the proposed Future Framework support are unclear and will depend on the chosen delivery model. Currently, the 2023-24 budgeted costs to administer payments, compliance and supporting services are £61m, representing approximately 11% of the £692m budget for all current schemes.
27. At present, the FM assumes that existing administration costs are the same for each year to 2027-28. It does not provide indicative costs going forward, and detail is not provided with regards to how future costs will be met.
28. It is noted that options for a future delivery model are being developed, and that “a core objective will be to establish an efficient operational service that balances the cost of service against the benefits that it delivers in the context of the vision and outcomes described above. The chosen option will be subject to affordability, given the significant financial challenges facing public services.”
29. The FM states that future operational costs to the Scottish Government are expected to remain at a similar level to current costs. However, it is noted that the proposed Tier 2 Enhanced Payment Mechanism represents “a novel method of providing support”, and as such transaction costs for both the Scottish Government and recipients of support are uncertain. In response to this Committee’s call for views on the FM, the Soil Association suggested that “the same may apply to elements within Tiers 3 and 4.”
30. The FM outlines estimated transition costs to deliver the Future Framework support programme, based on an anticipated transition period from 2023-24 to 2027-28 to deliver a new payment framework.
31. It estimates that total transition costs are expected to be approximately £64m. This estimate includes additional staffing required for programme development, the costs associated with retiring redundant or adapting existing digital services and developing new digital services, and support for farmers through Preparing for Sustainable Farming. As detailed in Table 5, digital developments are expected to account for £60m of the anticipated transition costs to the Future Support Framework.
32. Though the FM notes that bringing a new delivery model into service will incur implementation costs, an estimation of these costs is not included, as they will depend on design costs which are yet to be confirmed.

33. In response to this Committee's call for views on the FM, Quality Meat Scotland noted there is a danger that future administration costs could rise. They go on to state that "there will be extra costs of administration and changeover, particularly digital costs so it is crucial that these are not passed on to farmers in reduced support payments."
34. The National Farmers Union (NFU) Scotland questioned the costs outlined in the FM, querying why no staff costs are assumed for 2025-2028 and stating that "it is overambitious that transition costs will be wholly met from within existing resources."

## Costs to other bodies, individuals, and businesses

35. The FM states that farmers, crofters and land managers currently receive around £0.7 billion annually in public subsidies under the CAP, and that "the same people will continue to benefit from these subsidies under these proposals but those who deliver sustainable regenerative farming will benefit the most."
36. The FM explains that there may be costs associated with interventions and measures required for tiers 2 and 3 of the Future Framework through secondary legislation. The FM states that the Scottish Government will seek to offset these additional costs for farmers, crofters and landowners by "providing appropriate support levels ... to transform the ways they farm as well as by setting rates of support for each tier of the framework that take account of the associated transaction costs to participating businesses. Setting rates of support is a key element of developing the detailed delivery mechanism through user centred design and co-development with the sector".
37. In response to the Committee's call for views on the FM, several organisations suggested that they may face transition costs not covered in the FM. The RSPB noted that financial implications for its operations and land management are likely to arise as a result of the proposed transition to a four-tier system. However, the submission states that it is not currently possible to assess the extent of this impact, as the financial implications in the FM are set out in "rudimentary terms", and that future costs are unclear and will depend on the chosen delivery model.
38. Scotland's Rural College (SRUC) state that "there is clear indication within the FM of significant expenditure which has not been outlined or provided for. This increases the uncertainty in affordability of changes proposed. No apparent savings are noted throughout the FM that are either to the benefit of SG or to farmers."
39. SRUC's submission notes that "changes to agricultural support mechanisms will require us to redesign our internal processes to help deliver the schemes with farmers. Significant internal costs are anticipated for this." SRUC also states that "the memorandum does not consider the impact on farm income levels that will be created by the changes proposed. In addition to this, there is no consideration of the compliance cost that will be borne by individual farming businesses which are likely to increase. This begins in Tier 1 base payments with the costs on

businesses to produce Whole Farm Plans, which are likely to require the involvement of external support to the businesses to produce if requirements are onerous, although the criteria of the plans are still uncertain.

40. NFU Scotland wrote “it is disingenuous to imply that there will be no costs to the primary producer as part of the agricultural transition. There will undoubtedly be significant investment required from farmers and crofters – not to mention the level of training, learning and upskilling – in order to undertake measures outlined in the tiers. The relevant and reasonable costs for land managers should be outlined.”

## UK Government funding

41. The FM explains that, at present, support for agriculture and the rural economy is delivered through the Common Agricultural Policy (CAP) carried forward from the EU. The UK Treasury has committed to provide ongoing resource funding at this level ringfenced at £621m until the end of the current UK Parliamentary term. An additional £71m of Scottish Government funding resulted in an overall budget of £692m in 2023-24.
42. The FM notes that the quantum of funding available for agriculture support and rural economy beyond the term of the current UK Parliament is unknown, and that there is no funding commitment from 2025 onwards. It states that future funding levels are the subject of ongoing dialogue between the UK and Scottish Governments, and that the Scottish Government’s “working assumption is that funding levels will be retained from 2025-26 onwards.”
43. Several respondents to the Committee’s call for views on the FM highlighted the lack of certainty surrounding future UK Government funding as an area of concern. The Soil Association stated that “there is an urgent need for this potential ‘cliff-edge’ to be addressed”, and advocated for “a commitment to multi-year, ring-fenced funding for agriculture for the devolved administrations.”

## Proposal for a national reserve

44. The Policy Memorandum for the Bill explains that the Scottish Government’s consultation proposed to establish “a national reserve of payment entitlements, and regional reserves if/when required, to ensure the equal treatment of farmers and to avoid distortions of the market and of competition.” No information is included in the Policy or Financial Memorandum regarding how the proposed national reserve would work in practice, or how funding in any such reserve would be shown in the Scottish Budget.



## Food and Drink

45. The FM explains that—

“31. The Fruit and Vegetables Aid Scheme provides match funding to fruit and vegetable producers co-operatives legally recognised as Producer Organisations (POs), enabling them to make investments in large purchases or in research and innovation, with the goal of increasing competitiveness and sustainability in the fruit and vegetable supply chain. The scheme incentivises grower cooperation and forward planning, allowing them to make efficiencies and investments not possible for individual growers, encouraging investment in new technologies and environmental benefits. This year’s budget (23/24) for the Fruit and Veg Scheme is £3.0m and is funded through CAP Funding (Pillar 1).

32. Future funding will likely be committed on a multi-annual basis and right now it is claimed in arrears against investments made by the PO over the year January to December, the PO has the option to submit arrears claims up to three times in any given year.

33. Money is committed for calendar years 2024 and 2025. Total costs for the Scottish Government are expected to be £2.8m in 2024, and £3m in 2025. As the PO controls when they claim, it is difficult to accurately predict the Scottish Government spend into future financial years.

34. This scheme was retained on Scotland leaving the EU, and as previously stated it is expected a version similar to the current scheme would continue beyond 2025.”

46. Paragraph 35 of the FM provides examples of funds or grants that will be facilitated by the powers in the Bill. The examples given are all funds or grants which are decided and approved on a single year basis. The FM states that the “costs set out are broadly in line with what could be spent across future budgets lines for Food and Drink. However, future budgets will be subject to annual budget negotiations through the budget process.” The FM does not explain whether these funds or grants link to, or are included in, the costs to the Scottish Administration detailed in Table 1.

## Next steps

47. Following this evidence session, the Committee will be invited to consider the evidence heard and agree any next steps it wishes to take with regards to the FM.

Committee Clerking Team  
February 2024

Table 1: Projected expenditure, analysed between provide financial support to the sector and associated delivery costs.

<b>CAP funding / Future Support Framework</b>							
	2023-24	2023-24	2023-24	2024-25	2025-26	2026-27	2027-28
	Resource	Capital	Total budget	Total budget	Total budget	Total budget	Total budget
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
ARE: CAP Pillar 1 Budget	485.0	0.0	485.0	485.0	485.0	485.0	485.0
ARE: CAP Pillar 2 Budget	112.5	0.0	112.5	112.5	112.5	112.5	112.5
ARE: Pillar 2 Capital	0.0	17.2	17.2	17.2	17.2	17.2	17.2
Forestry Grants	23.2	54.0	77.2	77.2	77.2	77.2	77.2
<b>Total Cap Budgets</b>	<b>620.7</b>	<b>71.2</b>	<b>691.9</b>	<b>691.9</b>	<b>691.9</b>	<b>691.9</b>	<b>691.9</b>
<b>Other existing financial support provided to sector from this Bill</b>							
Food & Drink	6.4	0.0	6.4	6.4	6.4	6.4	6.4
SASA	0.9	0.0	0.9	0.9	0.9	0.9	0.9
Public Good Advice	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Animal Health Welfare	30.5	0.0	30.5	30.5	30.5	30.5	30.5
Rural Communities & Rural Networking	12.1	0.0	12.1	12.1	12.1	12.1	12.1
<b>Total</b>	<b>50.0</b>	<b>0.0</b>	<b>50.0</b>	<b>50.0</b>	<b>50.0</b>	<b>50.0</b>	<b>50.0</b>
<b>Total financial support to the sector</b>	<b>668.2</b>	<b>73.7</b>	<b>741.9</b>	<b>741.9</b>	<b>741.9</b>	<b>741.9</b>	<b>741.9</b>
<b>Existing costs on the Scottish Administration (Delivery costs only)</b>							
Paying Agency (RPID & DISD)	52.1	9.0	61.1	61.1	61.1	61.1	61.1
Scottish Forestry	8.5	0.0	8.5	8.5	8.5	8.5	8.5
Food & Drink	2.2	0.0	2.2	2.2	2.2	2.2	2.2

SASA	11.9	0.0	11.9	11.9	11.9	11.9	11.9
Public Good Advice	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Animal Health Welfare	3.9	0.0	3.9	3.9	3.9	3.9	3.9
Rural Communities & Rural Networking	0.8	0.0	0.8	0.8	0.8	0.8	0.8
<b>Total</b>	<b>79.5</b>	<b>9.0</b>	<b>88.5</b>	<b>88.5</b>	<b>88.5</b>	<b>88.5</b>	<b>88.5</b>
<b>Transition costs to deliver Future Support Framework</b>							
Additional Staff Costs	1.0	0.0	1.0	3.0	0.0	0.0	0.0
Digital Developments	0.0	6.0	6.0	15.0	15.0	15.0	9.0
<b>Total</b>	<b>1.0</b>	<b>6.0</b>	<b>7.0</b>	<b>18.0</b>	<b>15.0</b>	<b>15.0</b>	<b>9.0</b>
<b>Total costs to the Scottish Administration</b>	<b>80.5</b>	<b>15.0</b>	<b>95.5</b>	<b>106.5</b>	<b>103.5</b>	<b>103.5</b>	<b>97.5</b>
<b>Total costs to the Scottish Administration</b>	<b>751.2</b>	<b>86.2</b>	<b>837.4</b>	<b>848.4</b>	<b>845.4</b>	<b>845.4</b>	<b>839.4</b>