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Scottish Parliament
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19 December 2023

Dear Finlay,

Pre-Budget Scrutiny 2024-25

Thank you for your letter of 22 November 2023, setting out the RAI Committee's key points and recommendations following its pre-budget scrutiny sessions over recent months.

The 2023-24 financial position remains extremely challenging as the Deputy First Minister set out in her statement to Parliament on 21 November, and in her letter to the Finance and Public Administration Committee. This is due to high inflation, increased pay expectations, economic uncertainty, and the on-going cost of living crisis. Of course, the most significant of these is Brexit in terms of the impact it has had and will continue to have on the rural economy and industries more widely, as well as meaning we now receive less funding than we did while in the EU for rural and marine, and have lost the benefit of multi-annual funding frameworks. I am sure you and the committee share my disappointment at the UK Government's unwillingness and failure to address any of this.

All of these pressures continue into 2024-25 as the Deputy First Minister has set out in her statement to Parliament today and have required very difficult decisions to be taken to reach a balanced budget. The Committee will be aware that the Scottish Government is constrained in how we manage these pressures, with limited ability to generate income and limited borrowing powers. The only realistic option available to us to manage budget pressures is through re-prioritisation, particularly for in year pressures.

As you note, the Committee's scrutiny had a specific focus on the funding commitments associated with the implementation of the National Islands Plan and the Islands Programme budget. I am pleased to have been able to make provision of £4.3 million capital investment in our islands. This will ensure the ongoing delivery of the National Islands Plan through the Islands Programme, and our Carbon Neutral Islands project which is helping to tackle the climate crisis on islands in a just and fair way.

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I have addressed your detailed questions relating to the islands in the attached annex.

Funding for agriculture

We have discussed on several occasions, and also corresponded, regarding the funding received from UK Government which is ring-fenced for the purpose of supporting farmers, land managers, rural communities and rural businesses.

Given the pressure on public spending in recent years it is right that uncommitted spend was deferred to mitigate the on-going cost of living crisis. But as the Committee notes, there is a clear commitment to return these ring-fenced funds to the portfolio in future years. That process will begin in the 2024-25 financial year, with the return of £15 million to the portfolio. The Deputy First Minister has pledged that the full sum will be returned to the portfolio and I expect the remaining sum to be returned in future years. I welcome this commitment and am sure the committee will too.

The £15 million returned in 2024-25 will be used where we can best support our farmers, land managers, rural communities and rural businesses, and has been allocated across a range of programmes in my portfolio. I look forward to providing more detail on the plans for this when I meet you in January.

You also raise an issue in relation to legacy EU audits which occurred in 2017 (Area Aids audit) and 2018 (Entitlements audit). These audits gave rise to a disallowance of Pillar 1 EC funding of £5.6 million which became payable in 2022. Of this sum, £3.2 million has been settled, with the remaining £2.3 million is still under dispute resolution process. The sums due will be met from domestic Scottish Government funding, and full provision has already been made in the Scottish Government accounts for 2021-22. It should be noted that there will be no sums recovered – rightly - from farmers and crofters as a result of the audit.

Agri-environment climate scheme

The Committee asked for further information about the Scottish Government's position regarding its funding for the agri-environment climate scheme and other schemes intended to tackle the climate and nature crises.

The Scottish Government is addressing the nature and climate crises in a number of ways. With respect to agri-environment, the Agri-Environment Climate Scheme (AECS) was launched in 2015 to promote land management practices which protect and enhance Scotland's natural heritage, improve water quality, manage flood risk and mitigate and adapt to climate change.

AECS also supports the conversion to and management of organic land and farming methods, acting as one of the main vehicles to deliver the 2021-22 Programme for Government commitment to seek to double the amount of land used for organic farming by 2026.

AECS is a key part of support to farmers, crofters, and land managers in delivering nature restoration and addressing the twin challenges of climate change and biodiversity loss. To

date £285 million has been committed to over 3,000 businesses, of which over £43 million will support 682 contracts of up to five years issued in 2023.

As HM Treasury provides yearly allocations for the current UK Parliamentary term, multi-annual schemes such as AECS are limited in their ability to provide future funding certainty to applicants which has resulted in restriction of the options made available in some rounds of AECS.

You will be aware that the UK Government's decision to cut the capital allocation for the Scottish budget settlement by over 10% makes it challenging for the Scottish Government to prioritise capital funding in this draft budget.

As a result of Brexit, the EU CAP has ceased to apply. The Agricultural Reform Programme is currently designing the implementation of the new future framework which will replace the existing CAP legacy framework and the current AECS scheme. The [Agricultural Reform Route Map](#) set out my intention, should budgets be available, to run future annual rounds of AECS up to 2026 until new Elective and Complementary Support is implemented from 2027.

In the meantime, applications to the 2023 round of the scheme are being assessed, and the outcome of these will be shared following the publication of the draft Scottish Budget.

In addition, the Agricultural Transformation (Programme) Fund (ATF) was established in 2019 and is intended to provide additional support for the agricultural sector to take action that will help to reduce greenhouse gas emissions, improve business efficiency and enhance Scotland's natural environment through the period of transition.

This fund has been used to underpin the Sustainable Agriculture Capital Grant Scheme (SACGS) to aid the sector to invest in modernising agricultural equipment to support the delivery of direct and indirect greenhouse gas (GHG) reductions. Agricultural activities account for a significant amount of ammonia emissions and in 2022 SACGS was specifically directed towards providing support for low emission slurry spreading equipment and slurry store covers scheme. This was available to farmers, crofters and agricultural contractors who were registered with the Scottish Government Rural Payments division. In 2023, the ATF budget allocation was channelled through AECS to allow the extension of support for new slurry storage to be available nationally (except in NVZ areas). The intention behind both of these decisions was to support the sector to meet their obligations introduced by the Water Environment (Controlled Activities) (Scotland) Amendment Regulations 2021, which require improved controls on the storage of slurry and digestate to reduce leakage, and more targeted spreading to maximise the nutrient benefit and reduce emissions.

Support is also provided by the Scottish Government across other budget lines that also deliver towards our climate and nature objectives. For example, the Farm Advisory Service and the Greening payment 'for agricultural practices beneficial for the climate and environment' which has been paid on top of the Basic Payment Scheme since 2015. Thirty per cent of Scotland's Direct Payment budget is allocated to the Greening payment, available to arable farmers for measures which benefit nature, and we have recently increased the payments available to farmers for woodland creation.

Funding for fisheries and aquaculture

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The Committee recommended that the Budget makes clear how much investment is planned for developing science and technology to deliver the Science and Innovation Strategy for marine and freshwater environments and I can commit to doing so.

It is our intention to publish this new Strategy early in the New Year and I am happy to provide more information and send a copy to the committee once available.

I can say at this stage, that it is my intention to make science and technology funding one of the top priorities of Marine Directorate allocation process in the budget. One key area that we will want to explore is the use of new technology in the fishing sector, ensuring that we make the most out of the data and digital opportunities on the horizon in areas such as remote electronic monitoring (REM), robotics (autonomous vehicles), AI and data modelling.

The Committee also asked for clarification on this reduction in marine funding, with reference to the current funding in the EU at the moment that would have been received if the United Kingdom had remained a Member State.

Currently, the UK Government has committed £14 million per annum to Scottish Government for marine and fisheries funding for the UK Spending Review period 2022-2025. This is vastly insufficient given the size and importance of the Scottish marine sectors and is particularly challenging given past underfunding and the significant impacts of Brexit on the sectors. To date, the UK Government has provided no certainty around funding that Scottish Government will receive for marine and fisheries funding in Scotland beyond that point, i.e. beyond the financial year 2024-25.

With the current European Maritime, Fisheries and Aquaculture Fund (EMFAF) increasing the level of funding provided to EU member States, a quick comparison with, for example, Denmark – which has a similar population to Scotland but both a smaller sea area and marine sector – shows Denmark will receive approximately £24.5 million per annum funding. This is for the 7 year period that the EMFAF is running for, 2021-2027.

Therefore, over the 7 years funding certainty of the EMFAF, Denmark could benefit by up to an additional £73.5m funding compared to the funding provided to Scotland in the same timeframe at the same level. In addition, the flexibility and certainty of a 7 year programme allows for greater long-term planning and investment in marine and fisheries, compared with the 3 years of the UK Spending Review.

This acute underfunding is further exacerbated by the £100m the UK Government has awarded itself to deliver the UK Seafood Fund, which is causing confusion and duplication with our Marine Fund Scotland and is undermining devolution of fisheries funding and management to Scotland.



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Annex – The Islands Programme

Application process

The Committee considers it vital that this work to de-clutter the funding landscape and minimise the burden of applications under the islands programme continues.

As I have previously reported to the Committee, the scrutiny and support provided by the current competitive bid process for the Islands Programme along with robust Investment Panel discussions, and the support provided to local authorities by the Scottish Futures Trust (SFT) is helping to ensure strategic delivery of the National Islands Plan. The process helps ensure value for money and provides ongoing support for the projects currently being delivered under the Islands Programme.

The level of detail required to support applications to the Islands Programme has also been designed to be transferable from applications to other funds.

Ultimately, there is a need to ensure that strategic, critical projects are taken forward and are deliverable, and this need is best achieved collaboratively.

Over the coming year, my officials will collaborate with their colleagues across Scottish Government and with partners externally to ensure we continue to provide as much support as possible to island communities. Alongside this, they, and their colleagues in SFT will continue to support communities to develop projects and bids for the Islands Programme and other capital funds.

Investment panel

The Committee welcomes the increased number of island-based panel members. We encourage the Scottish Government to monitor this and ensure that the membership of the panel remains appropriate to provide a proper understanding of the needs of island communities.

We will continue to monitor membership of the Investment Panel, and when opportunities arise, seek to appoint new island-based members. We found the contributions of the new members added value and will continue to expand the range of input from across a wide range of island-based sectors and interests.

We will update our local authority colleagues on any changes to membership and ask for suggestions for future representation from other sectors and communities.

Competitive approach to allocating funding

The Committee recognises the balance that needs to be struck between local authorities' call for flexibility and the Scottish Government's need to ensure the objectives of the national islands plan can be met. However, we encourage the Scottish Government to engage more closely with local authorities to ensure as much flexibility as is possible in the allocation of funding.

I am proud that the criteria for Islands Programme investment allows for an extensive range of eligible projects and costs. The programme can fund elements of projects which are specifically excluded from other major capital programmes, for example Regeneration Capital Grant Fund, which does not include, for example flood protection works.

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We will continue to collaborate with our local authority colleagues and consider with wider Scottish Government Divisions how further flexibility can be embedded in national programmes to help deliver the Plan.

Cost of living and fuel poverty

The Committee remains concerned about the fuel poverty rates across the islands and recommends sufficient funding be allocated in the 2024-25 budget to ensure that this issue can be tackled.

This year we are allocating £350 million to heat, energy efficiency and fuel poverty measures, including £119 million targeted at fuel poor households. The First Minister has also tripled the Fuel Insecurity Fund to £30 million for 2023/24.

Whilst the UK Government holds the powers to take the real action required to tackle fuel poverty rates, the Scottish Government is committed to working with partners within the limited powers available to us. We called for extra support for alternative fuel users in the UK Government Autumn Statement and are disappointed that this did not happen. The Minister for Energy and the Environment also chaired a rural energy consumers group to support those who rely upon alternative fuels for heating their homes. Informed by the group, she has written to the UK Government calling on them to provide targeted support to vulnerable off-grid consumers and ensure that rural and island communities are considered in their decision making.

Within our own powers we are maintaining our £64 million investment in Area Based Schemes in 2023-24. These deliver energy efficiency improvements for households living in or at risk of fuel poverty. Over the last three years we have provided funding to enable 3,000 fuel poor households in island local authorities to benefit from energy efficiency improvements. In total this year we have allocated just under £11.4 million across the six island authorities. We also recognise that the costs of delivering energy efficiency measures are higher in rural and island areas. Therefore we have increased the value of our uplift for rural and island communities to reflect costs that are 22% greater on average.

I agree that funding decisions must take account of rural and island circumstances and needs. That is why, in addition to support provided through the Islands Programme, we have provided £1.4 million in 2022/23 and £1 million in 2023/24 through the Islands Cost Crisis Emergency Fund (ICCEF) to help mitigate against some of the unique cost of living challenges, including fuel poverty faced by many islanders. This funding is distributed by the six island local authorities, with support targeted where they feel it will be most effective and towards people, communities and businesses who are struggling the most.

Measures intended to alleviate fuel poverty, and which were delivered by the local authorities through this funding in 2022/23 included direct payments to low-income households and those on Council Tax Reduction, support with fuel and electricity costs, provision of warm spaces for people to meet and investment in equipment to provide additional resilience and cost savings.

Many warm hubs were supported across all the local authorities. These provide support not only through winter months, but given the climate and weather in island geographies, are used throughout the year.

Upgrades to halls were also funded to allow them to continue to provide warm spaces and energy advice support was funded across all local authorities.

Actions by local authorities funded by the 2022/23 ICCEF included:

Shetland Islands Council	The purchase of items to keep people warm and reduce bills further support of the Emergency Household Energy Scheme with a payment of £400 to 200 households through Citizens Advice and an extensive comms campaign to highlight support available (including social media posts, leaflets, mailshots, cinema screenings and radio adverts).
Orkney Islands Council	Support for Third Sector organisations with the impact of the higher electricity costs. Third sector groups are critical to supporting families and individuals through the winter and are themselves facing existential threats in the cost crisis.
Comhairle nan Eilean Siar	Support by way of direct payments to low-income households and those in receipt of Council Tax Reductions, support for foodbanks, provision of vouchers, and warm spaces for people to meet up.
Argyll and Bute Council	Direct payments to those already identified in need, further utilisation of Shop Local cards to distribute funds to low-income households on its islands (more than 1,000 households) which can be used to buy locally.
Highland Council	Funding of over 700 cost of living awards. Highland Council also made payments towards the replacement of a back-up generator to offer continued affordable electricity and a village hall flood defence upgrade and maintenance to enable provision of warm spaces for the community.
North Ayrshire Council	North Ayrshire Council undertook two mini enquiries to listen directly to residents. Funding was allocated to third and voluntary sector organisations to extend/scale up/innovate in relation to ongoing activity to support access to energy support and transport costs, and further investment in its Energy Smart and Money Matters schemes to support households with energy costs and measures.

Our local authority colleagues are currently finalising how the 2023/24 ICCEF will be allocated (drawdown is expected to be in the last quarter of the financial year). Initial indications show that officials will build on previous measures in line with 2022/23 - measures such as the funding of energy support officers, electricity top-up payments and for example in Orkney the distribution of Cosy Home packs with each client getting items tailored to their specific situation e.g. thermal blanket/warm bedding, small white goods, oil filled electric heater, draught excluder, hats, gloves and socks (adult and child).

Depopulation

The Committee requests an update on how funding is distributed and how the different needs of different communities in relation to depopulation are taken into account. The Committee asks the Scottish Government to keep it updated in relation to the forthcoming Addressing Depopulation Action Plan.

The annual local government settlement is distributed in full using the needs-based formula, which is discussed and agreed each year with COSLA on behalf of all their local authority members. The formula uses the most up to date information for the full range of indicators, including population.

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The funding formula includes a funding floor to provide a degree of stability for all local authorities and protects councils with falling needs from the equivalent fall in funding.

The Addressing Depopulation Action Plan will include the delivery of funded pathfinder projects in areas affected by depopulation. This will support local leadership, identifying a need for the design and delivery of targeted research and policy interventions into local drivers of depopulation, and a collective national, regional, and local response to these.

Skills and workforce development

The Committee asks the Cabinet Secretary for further information about how the Scottish Government's support for skills and workforce development will address any specific skills shortages in island communities and, thus, ensure the objectives of the skills action plan for rural Scotland and the islands plan will be met.

The Scottish Government recognises that the challenges facing rural and island areas are interconnected. That is why we are acting across a range of portfolios, in order to support our island communities to attract and retain people within their communities.

We place significant value on apprenticeships in Scotland. They are vital for supporting young people into rewarding careers and helping people upskill, reskill and progress within their chosen careers. Apprenticeships are demand-led, and our apprenticeship system aims to be as responsive to industry demand as it can be.

Delivery in island and rural communities is a key priority to encourage and support inclusive growth. We have introduced a rural uplift for Modern Apprenticeship delivery which is an increased payment to training providers to encourage provision in island and rural areas. In addition, Travel and Subsistence (including accommodation) funding is also available to support apprentices who must attend structured and formal off-the-job training (out with normal daily travel requirements) where this is required by the Modern Apprenticeship Framework.

Construction apprenticeships continue to be one of the highest taken up in terms of overall number of starts each year and statistics published by Skills Development Scotland (SDS) in May 2023, showed that in 2022/23, construction occupations accounted for 26% of Modern Apprenticeship starts (6,623).

The Skills Action Plan for Rural Scotland (SAPRS) set out our strategic, partnership approach to support the skills needs of the rural economy and has delivered considerable progress across and resulted in better alignment of skills delivery to skills needs in the rural economy. The Plan has now matured and our future approach to rural skills will take account of the broader skills landscape as well as any changes likely to occur as a result of recent reviews and responses.

We established the Commission to Review Land-Based Learning, to review learning pathways in our land-based and aquaculture sectors. It reported to Scottish Ministers in January 2023 with 22 recommendations. Those recommendations which we accept will inform our next actions.

Lastly, the forthcoming Rural Delivery Plan will be a further opportunity to ensure there is a focus on supporting rural and island communities in gaining the right skills to take advantage of employment opportunities.

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Carbon Neutral Islands

The Committee requests further information about how the Scottish Government will ensure “the most pragmatic and efficient mechanism” will be used to fund the carbon neutral island project.

As I have previously highlighted to the Committee, public funding alone will never be enough to fund everything required to deal with the climate emergency we face. Therefore my officials are collaborating with partners to develop investment strategies that look across different funding streams including public, public private partnerships and private investment. These will consider the medium to longer term delivery of the project.

In the short term, we continue to work with local anchor organisations to ensure that funding reaches them in the most efficient and flexible way possible to suit their needs. I would note that working with communities through the delivery of the project has allowed for a significant volume of work to be completed since the original commitment. Work is also underway to help us understand how the experiences of the project can benefit all islands.

Housing

The Committee recommends that the Scottish Government’s commitment to build housing in rural and island communities is decoupled from the overall house building commitment.

The Scottish Government’s approach to the planning and delivery of affordable housing is focussed on providing the right homes in the right places. This underlying place principle applies as much to rural as urban areas and forms the basis for our approach to delivering housing solutions across Scotland working closely with councils in their role as the statutory housing authority. As the statutory housing authority for their area, local authorities are responsible for assessing housing need and demand and setting out how the requirement for housing will be met through their Local Housing Strategies and Strategic Housing Investment Plans, including the location and size and type of housing required. These assessments are based on the use of household trends (not population) as well as other key considerations such as existing need, affordability, and current supply.

The Scottish Government recognises that good quality, affordable housing is essential to help attract and retain people in Scotland’s rural and island communities. We are committed to deliver 110,000 affordable homes by 2032, with 70% of these for social rent and 10% in remote, rural or island communities. The target of 10% in rural and island communities is not a cap, but a long-term commitment to the continuing delivery of rural housing across Scotland.

I look forward to sharing the findings from our recent National Islands Plan Review consultation process with the Committee in due course.

Cross portfolio Islands funding

Drawing on your comments about the cross-portfolio nature of islands funding, the Committee recommends the Scottish Budget documents include a section under each

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portfolio explaining how the budget allocations contribute to the objectives set out in the Islands Plan.

The Committee's comments reflect the obligations stemming from the Islands (Scotland) Act 2018 to 'island proof' our policy delivery. The National Islands Plan Annual Report 2022 - ([National Islands Plan Annual Report 2022 - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/national-islands-plan-annual-report-2022/pages/0/))¹ is required by law to be presented to Parliament each year and this is the document that sets out the progress across all portfolios towards delivery of the Plan's 13 Strategic Objectives each year. The Scottish Government also has a robust policy-making process which requires various impact assessments to be undertaken on new policies including an Islands Communities Impact Assessment.

As the Budget Bill 2024/25 completes its passage through Parliament, my officials will work closely with other policy colleagues across government to explore detailed spending plans as they are developed against budget envelopes. This will help us to ensure a comprehensive assessment of any potential impact on island communities is conducted and the effects of relevant spending decisions are highlighted and addressed where possible.

¹ <https://www.gov.scot/publications/national-islands-plan-annual-report-2022/pages/0/>

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