



The Scottish Parliament
Pàrlamaid na h-Alba

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

Rural Affairs and Islands Committee
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By email only

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Dear Cabinet Secretary,

Pre-budget scrutiny 2024-25

Ahead of the publication of the Scottish Government's 2024-25 Budget, the Committee welcomes the opportunity to set out recommendations for the rural affairs and islands portfolio. The Committee's pre-budget scrutiny considered the overall rural affairs and islands portfolio with a specific focus on the funding commitments associated with the implementation of the national islands plan and the islands programme budget. We highlight below some specific issues that have been raised in our pre-budget scrutiny and make some recommendations that we hope will be taken on board in developing the Budget.

Islands programme

Expected reduction in funding

The Scottish Government's '[Outcome of the Targeted Review of the Capital Spending Review – Updated Spending Allocations for 2023-24 to 2025-26](#)' showed no budget for islands in 2024-25.

Local authorities expressed some surprise and disappointment to the Committee at the planned reduction in islands programme funding in 2024-25. When we raised this with you in our [pre-budget scrutiny evidence session on 27 September](#), you explained that the information included in the resource spending review and the capital spending review set out

“broad funding envelopes, but those are not budgets in and of themselves. Because we are at the start of the budget process, I am not in a position to say right now what the budget will be for the forthcoming financial year.”¹

The Committee regrets the expected planned reduction in islands programme funding in 2024-25 and any impact this may have on meeting the islands plan objectives.

The Committee notes some islands local authorities raised concerns at learning about the planned reduction in islands programme funding from the Committee. Clearly this is not ideal. The Committee seeks the Scottish Government’s reassurance that effective channels of communication will remain open with island local authorities in future about the funding that will continue to be available.

The Committee recommends that the Budget 2024-25 maintains the funding allocation for the islands programme as was set out in the 2021 Programme for Government and original capital spending review.

When discussing with the Committee what funding would be available you stated—

“I know how important the islands programme is, but it is not the only capital or infrastructure spend that happens across our islands. There will be continued investment, whether that is in housing or in other areas across Government. There is also the funding that is coming through the islands growth deal. We need to remember all of that other spend in the round when we think about the spend that takes place in our islands.”²

The Committee understands this position and welcomes spending on our islands in other portfolios. However, we consider that clarity is needed about the investment being made in our islands across all portfolios.

To that end, the Committee reiterates the recommendation we made in last year’s pre-budget scrutiny that the Scottish Budget documents include a section under each portfolio explaining how the budget allocations contribute to the objectives set out in the Islands Plan.

Application process

In the Committee’s pre-budget scrutiny of the 2023-24 budget, concerns were raised by local authorities about the application process under the islands programme. Responses this year indicated an improvement, which the Committee welcomes. However, concerns were still raised about the onerous nature of the application process and the associated resource implications. Another, related, concern was that the funding landscape remains cluttered, although it was acknowledged this was also due to UK Government funding streams as well.

² Rural Affairs and Islands Committee, Official Report, 27 September 2023, Col: 16

When this issue was raised with you, you stated that: “The work that the islands team has been doing with the Scottish Futures Trust has been helpful in trying to minimise the burden of the islands programme as much as possible”.³ You also explained that “the cluttered funding landscape is a difficult issue to resolve because I do not hold all the levers in my portfolio for the other funds that impact islands” but that “the islands team and the SFT are doing together to minimise the clutter as much as possible. That has involved working with other policy teams across the Scottish Government”.⁴

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. We recognise that this will involve several ministerial portfolios, as well as engagement with the UK Government, so collaborative working across the Scottish Government as well as effective intergovernmental working has to be ensured.

Investment panel

The Committee has also heard concerns, specifically from [Argyll and Bute Council](#), that the investment panel felt “remote from the islands”. It is understood that previously only one member of the panel was based on an island. The Committee recognises that the experiences and challenges of people living on islands are extremely different from those of people living in mainland Scotland and believes the investment panel must reflect this.

When this issue was raised with you, you explained that five new members had since been appointed to the investment panel, who are largely island based – bringing the total panel to 12 members.⁵

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 in order to provide a proper understanding of the needs of island communities.

We also encourage the Scottish Government to work with local authorities to monitor the impact of these changes to the investment panel and, in particular, that island local authorities feel the investment panel no longer feels as remote from the islands.

Competitive approach to allocating funding

Several local authorities raised concerns with the Committee about the competitive approach used to allocate Island Programme funding. [North Ayrshire Council](#) stated that “any competitive process requires the diversion of resource from other activities”, and direct awards to Councils “would increase efficiency and speed of project delivery”.

³ Rural Affairs and Islands Committee, Official Report, 27 September 2023, Col: 8

⁴ Rural Affairs and Islands Committee, Official Report, 27 September 2023, Col: 8

⁵ Rural Affairs and Islands Committee, Official Report, 27 September 2023, Col: 11

The Committee raised this with you in our 27 September evidence session and you explained the changes you have made to the competitive bid process and guidance, including removing the ceiling on applications so that “local authorities can decide whether they want to take through a large project or would prefer to submit applications for a number of smaller projects”.⁶

You stated that you believed the competitive bid model was more flexible than direct awards, which allowed for the funding of big projects that could not otherwise have been part of the programme. You also stated that this process gives the Scottish Government “overall strategic oversight... to ensure that we are delivering against the objectives of the national islands plan”.⁷

However, it was acknowledged in that evidence session that “the flexibility that our local authority partners would like perhaps needs to be a bit more embedded” while still ensuring “that islands programme funding matches the strategic objectives of the national islands plan”.⁸

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.

Cost of living and fuel poverty

The Committee also raised some concerns with you during its pre-budget scrutiny about the cost of living for those living in island communities. [Estimates by Shetland Islands Council](#) suggest that the costs of living in some island areas are 20 to 65 per cent higher than the UK average.

In relation to fuel poverty specifically, in a [Eorpa programme on BBC Alba](#) the Western Isles Poverty Action Group told reporters that fuel poverty rates on the islands could be up to at least 80% as a result of recent energy price rises. Likewise, the [Leader of Shetland Islands Council wrote to the UK Government](#) in August 2022 expressing concerns that fuel poverty rates across the islands could be as high as 96%.⁹

Given these particular issues, the Committee questioned whether the island programme money was being spent in a way that tackles the issues that are of most importance to these communities. You responded that you were confident that this was happening as when applications are assessed there is a strong weighting towards projects that deliver against the [National Islands Plan’s](#) objectives and addressing fuel poverty is one of these.¹⁰

⁶ Rural Affairs and Islands Committee, Official Report, 27 September 2023, Col: 10

⁷ Rural Affairs and Islands Committee, Official Report, 27 September 2023, Col: 10

⁸ Rural Affairs and Islands Committee, Official Report, 27 September 2023, Col: 9

⁹ The Committee notes there are multiple measures of fuel poverty, which can lead to conflicting statistics, but fuel poverty rates are consistently found to be higher in the islands than elsewhere.

¹⁰ Rural Affairs and Islands Committee, Official Report, 27 September 2023, Col: 22-23

While it is welcome that projects aiming to decrease fuel poverty will be weighted towards delivering against the National Islands Plan objectives, and recognising the broader economic context around fuel poverty, the Committee would appreciate further information on Scottish Government funding allocated to tackle fuel insecurity.

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. We also hope the UK Government does what it can to address fuel poverty in our islands, recognising that there is a role for both governments in tackling this issue.

The Committee also encourages the Government to ensure schemes targeted at this issue are applicable to rural areas. Funding needs to be delivered in a way that takes account of the specific circumstances of rural and island communities.

Depopulation

The Committee considered the [first results of the 2022 census](#) which indicates depopulation in the islands. The Census shows that all of the 6 island local authorities have lower than average rates of young people. As the [National Islands Plan](#) states, “[this] in the years to come will translate into a shrinking working-age population”.

The Committee raised with you the issue of depopulation, and interrelated issues around housing (discussed further below), in our pre-budget scrutiny evidence session. You stated: “There is no one simple solution to address all of that, especially when it comes to depopulation. It is about the action that we take on a number of different fronts to address that”.¹¹ You also highlighted that opportunities to address this exist across the portfolio, for example, in relation to land reform. The Committee highlighted how interrelated this matter is with other issues such as housing and transport and your commitment to work with other portfolios on addressing this. In reply you stated that: “the islands team engages with other portfolios across Government all the time, on different aspects of the work”.¹²

In considering the 2023-24 Budget, the committee sought assurances that the £5 million previously allocated for the islands bonds would stay in the overall Islands Plan budget. You indicated that this would be used for tackling island depopulation. In our pre-budget scrutiny evidence session this year you indicated that there are also sources of funding outwith your budget that can help with depopulation.¹³

The Committee welcomes that funding is available to tackle this issue but recognises that different areas are experiencing higher levels of depopulation than others. We therefore asked whether work had been done on island profiling, and allocating the

¹¹ Rural Affairs and Islands Committee, Official Report, 27 September 2023, Col: 17

¹² Rural Affairs and Islands Committee, Official Report, 27 September 2023, Col: 21

¹³ Rural Affairs and Islands Committee, Official Report, 27 September 2023, Col: 19-20

funding that is available according to which areas are experiencing higher levels of 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.

Skills and workforce development

The Committee's pre-budget scrutiny also highlighted the challenges for island communities in developing and retaining the skills and workforce needed to deliver projects into the future. When this was raised with you, you discussed that one of the challenges that projects have come up against is an issue with construction skills and ensuring that there is a construction workforce. You stated—

“Work on that is being done nationally, and work has been undertaken to get the Scottish vocational qualification on a par with other SVQs that we have in place. The Minister for Higher and Further Education has been leading that work, and he had a round-table discussion with all the interested stakeholders just last month to look at how we can do work on that and address some of the challenges with it”.¹⁴

The Committee questioned whether Skills Development Scotland creates enough apprenticeships that are appropriate for those who live on islands and whether more should be expected in the Budget from other portfolios to ensure that those skills are developed and that we retain the workforce that is needed. In your response you stated that Skills Development Scotland is not within your portfolio but agreed it was “important to work together across Government to address such challenges”.¹⁵

The Committee's discussion about the shortage of construction skills in islands is a further example of how government portfolios are interconnected in relation to the issues facing island communities. 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.

Carbon neutral islands

The Committee would also like to highlight some concerns about [Carbon Neutral Islands](#) funding. There are two elements to this: a delay in funds being paid, resulting

¹⁴ Rural Affairs and Islands Committee, Official Report, 27 September 2023, Col: 12

¹⁵ Rural Affairs and Islands Committee, Official Report, 27 September 2023, Col: 12

in host organisations having to bridge funding; and, the long-term uncertainty of the Carbon Neutral Islands plan.

When the Committee raised this issue in our pre-budget evidence session, it was stated that: “We are mindful of the funding issue that is raised in your question and have learned from that. We were trying to find the most pragmatic and efficient mechanism to get the money to the heart of communities so that they could use that in the best way”.¹⁶ On the long-term uncertainty, you stated that—

“The next stage in the process is to look at the investment strategies for the future. Public funding will never be able to fill all the gaps in the work on climate and nature, much as we might want it to, which is why private investment and other sources of investment will be important. The work that is taking place on those investment strategies will be critical for the future. From a budgetary perspective, we want to enable the process and will continue working with communities so that that work can happen”.¹⁷

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.

Housing

The acute housing needs of island communities was also something that featured strongly in the Committee’s pre-budget scrutiny. The Committee considers this to be another area where effective cross-portfolio working is essential. We welcome the anticipated rural and islands housing action plan and hope this gives a strategic focus to projects in this area.

It is also clear that the issue of housing is closely related to other challenges facing island communities, such as employment and childcare. You confirmed that childcare is part of the islands plans and there are projects aiming to address these issues. You stated that—

“Earlier this year, £25 million-worth of funding was announced to try to address the issue of accommodation for key workers. That funding is mostly focused on looking at how we can bring vacant or derelict properties back into use”.¹⁸

The Committee also discussed with you the Government commitment to build 110,000 houses by 2032, 10 per cent of which will be rural and island housing.¹⁹ This is 11,000 houses expected in rural and island communities. Irrespective of how many houses are built by 2030, at least 11,000 are essential in these communities.

¹⁶ Rural Affairs and Islands Committee, Official Report, 27 September 2023, Col: 14

¹⁷ Rural Affairs and Islands Committee, Official Report, 27 September 2023, Col: 14

¹⁸ Rural Affairs and Islands Committee, Official Report, 27 September 2023, Col: 15

¹⁹ Rural Affairs and Islands Committee, Official Report, 27 September 2023, Col: 18

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. Thus, instead of being set as a target of 10 per cent of the overall Scottish Government target of 110,000 houses by 2032, the target should reflect rural and island communities’ housing needs, rather than being expressed as a percentage of the national build target.

More generally in relation to islands programme funding, the Committee notes the review of the islands plan. The Committee will follow up the themes arising from this year’s pre-budget scrutiny when it next considers the islands plan.

Funding for agriculture

In our 2023-24 pre-Budget scrutiny the Committee asked for some clarification around funding that had been ring-fenced for agriculture.

In the 27 September evidence session, it was stated—

“We have a guarantee from the UK Government on the ring-fenced funding. We mentioned the £595 million for crofters and farmers and also the Bew money. We have that guarantee again for 2024-25, so that money will come into our budget. The extra money that is spent from Scottish Government money is the bit that will come out in the wash, if you like, through the budget process. If there are any savings to be made, it is the balance that will be reviewed. That is all part of the budget process. At this point, we have a guarantee from the UK Government that the ring-fenced funding will flow into our budget next year”.²⁰

You followed up on this discussion in a [letter on 12 October](#), in which you stated—

“During the meeting [on 27 September] I offered to confirm the definition of ‘ring fenced’. In the 2021 Spending Review settlement, HM Treasury included non-Barnett funding with associated ringfences/conditions, an element of which was ‘... for the purpose of supporting farmers, land managers, rural communities and rural businesses.’

The Scottish Government reports spending against ring fenced allocations to HM Treasury as part of regular financial monitoring processes and has complied with all HMT requirements regarding expenditure from ring-fenced agricultural funding.”

You went on to discuss the emergency budget review (“EBR”), stating this was—

“A difficult process of re-prioritisation undertaken across the Scottish Government to support the achievement of a balanced budget and to support those hardest hit by the cost of living crisis, including those farmers, land managers, rural communities and rural businesses represented in my portfolio.

²⁰ Rural Affairs and Islands Committee, Official Report, 27 September 2023, Col: x

The Deputy First Minister confirmed at the time of the EBR announcement to Parliament, and more recently at a meeting with NFU Scotland, that the ring fenced funds that had been subject to reprioritisation will return to the portfolio in future years. Exactly when the money will be returned to the portfolio will be part of future budget discussions.”

The Committee notes the Scottish Government is committed to returning the EBR money to the RAI budget and requests an update on when this will be achieved. If the money is not being returned in the 2024-25 Budget, the Committee requests an explanation of why this has not been done.

When the money is returned to the portfolio, the Committee recommends that the Budget documents make clear how this ring-fenced money is being spent.

In our pre-budget scrutiny evidence session, the Committee also raised with you the report that the European Commission has imposed a fine of £5.6 million following a 2020 audit’s uncovering of failures in how the Scottish Government was administering common agricultural policy fund payments to Scottish farmers. The Committee asked where the money to pay the fine would come from.

Due to the ongoing action on this matter you were unable to comment on this but it was acknowledged that there is no contingency fund for such issues.²¹

The Committee requests clarification of which portfolio the funds to pay the fine will come from.

The Committee also notes the uncertainty regarding future budgets relating to agriculture. The Committee requests clarity on future funding in order to inform its scrutiny of the Agriculture and Rural Communities (Scotland) Bill.

Agri-environment climate scheme

During our evidence session, the Committee asked about the allocation of money for the agri-environment climate scheme, noting that the funding for agri-environment is small compared to the allocation for direct payments under pillar 1.

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

Funding for fisheries and aquaculture

The Committee also considered fisheries and aquaculture in its pre-budget scrutiny and, in particular, how this interacts with the commitment in the [Programme for Government](#) to produce a “Science and Innovation Strategy” for marine and

²¹ Rural Affairs and Islands Committee, Official Report, 27 September 2023, Col: x

freshwater environments. The Committee asked if this strategy would have budgetary implications. You stated that—

“It is not anticipated that it would have any funding implications at the moment, because the strategy would not, in and of itself, require to be funded. It is more about how we better utilise the resource that we already have”.²²

The use of artificial intelligence, and new technology in general, was also discussed with you. You indicated that this was likely to be part of the consideration in relation to the science and innovation strategy.

The Committee recommends that the Budget makes clear how much investment is planned for developing science and technology to deliver the Science and Innovation Strategy.

The Committee also asked for clarification on marine funding following exit from the EU. You stated: “We believe that we have not received resource that we should, and would, have received had we remained members of the European Union”.²³

The Committee requests clarification on this reduction in resources, 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.

Yours sincerely,



Finlay Carson MSP
Convener
Rural Affairs and Islands Committee

²² Rural Affairs and Islands Committee, Official Report, 27 September 2023, Col: 32-33

²³ Rural Affairs and Islands Committee, Official Report, 27 September 2023, Col: 33