

Finlay Carson MSP
Convener of Rural Affairs, Islands
and Natural Environment
Committee
Scottish Parliament
Edinburgh
EH99 1SP

22 December 2022

Dear Finlay,

Pre-Budget Scrutiny 2023-24

Thank you for your letter dated 3 November 2022 setting out RAINE's key points and recommendations following the Committee's pre-budget scrutiny sessions during autumn.

In setting out the 2023-24 Budget the Deputy First Minister has clearly laid out this government's priorities of eradicating child poverty, transforming the economy to deliver net zero and creating sustainable public services. Those priorities are echoed in my commitments to rural, islands and coastal communities and businesses.

As we discussed in October, there continues to be significant volatility in the fiscal outlook, and as DFM outlined in his statement to parliament a number of factors are projected to reduce the Scottish Government's funding and spending power in future years. On top of this, the fiscal constraints of devolution mean that we cannot go as far as we would like. This means that difficult decisions are required and resources will be targeted where they are most needed.

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

Despite this, I will continue to prioritise payments into the rural, agriculture, marine and island communities in 2023-24. This prioritisation provides much needed economic stability to our most fragile areas who continue to bear the consequences of covid, EU Exit and now the cost crisis. As I explained to Committee before, I also intend to ensure that we remain focussed on our critical work with the agricultural sector on meeting our vision to support food production, climate change and nature restoration.

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As we have said before, by definition we cannot prioritise everything, but I am clear that the budgets allocated to RAI as part of the annual Budget setting process will continue to make a vital difference to our rural, coastal and islands economy.

I look forward to our discussion in January, in the meantime I have provided answers to your questions below.

Impact of cost crisis on RAI Budget

Resource Spending Review

The Committee asked about the real terms fall in the RAI budget between 2022-23 and 2026-27 from £881m to £816m. The RAI spending plans as set out in the published document are largely steady over the period of the Resource Spending Review (rSR):

Level 2	2022-23	2023-24	2024-25	2025-26	2026-27
Total £m	881	879	879	884	885

As I outlined in my last letter, the rSR balances spending plans against the available funding, using best estimates based on current forecasts and constitutional settlements. These judgements can change over time, however the Scottish Government does not have the necessary fiscal levers to manage the volatility in funding, spending pressures and wider fiscal risks. For example, inflation (CPI) reached 11.1% in October, the highest UK rate since 1981. Using that measure, the Block Grant we receive from UK Government is 10.8% lower than it was in 2021-22. So whilst the rSR set out potential future high level multi-year financial parameters for portfolio funding envelopes, it is worth being clear that the spending plans outlined are not portfolio budgets. Budgets will continue to be set through the annual parliamentary budget Bill process and will be based on the latest fiscal information.

Emergency Budget review

Regarding the ring-fenced funds that formed part of the Emergency Budget Review (EBR), the cost crisis has created an unprecedented challenge and the Scottish Government has, rightly, explored all financial options to support the emergency response and help people and businesses through this crisis. RAI, like all portfolios across Government, answered the call to support the cost crisis. The majority of ring-fenced funds put forward by RAI during EBR were convergence funds which arrived contrary to our expectations – UKG had not engaged meaningfully in advance of their spending review in October 2021, so we prudently did not factor the funds into our spending plans. The remainder was reforecasting of demand-led programmes. Both these things mean there was no impact on existing commitments or schemes, and deferral has also had no impact on the National Test Programme. As the Deputy First Minister and I have both said, any deferred ring-fenced funding will be returned to the portfolio in future years, ensuring this money is used to deliver upon Scotland's rural priorities.

Farming & Crofting

The Committee asked for a breakdown of how much has been spent to date, what this has been spent on, and how many carbon audits and soil tests have been carried out.

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The National Test Programme (NTP), in particular “Track 1”, is a demand led initiative. The budget was determined at an early stage of programme development and prior to the specific measures that would be funded being agreed. The 2022-23 allocation was therefore considered the best estimate to allocate to the programme. The measures for inclusion and payment rates were developed in conjunction with industry experts. Care was taken to ensure budget headroom in order to avoid an overspend.

In Track 1, the uptake of carbon audits has, so far, been lower than expected. This was partly due to high numbers of businesses accessing the carbon audit option through the Farm Advisory Services contract early in the year. The Farm Advisory Service (FAS) delivered 347 carbon audit reports from 01 April – 28 July 2022 which used the budget allocation for this FAS option. This early uptake of Carbon Auditing provided reason to be optimistic, however the uptake through the NTP has subsequently been slow, with officials receiving a mixture of feedback from the sector. In particular there have been anecdotal reports with some agents, advisory and testing services indicating they are at capacity with carbon auditing and soil testing, and some farmers reporting they have not yet been able to access these services. The farming calendar will also have been a significant factor in pace as the industry is busy during the spring to harvest period.

With regards to carbon audits and soil testing, as at 12 December 2022 we had received 12 claims for carbon audits to a value of £6,000 and 21 claims for soil sampling to a value of £22,281.

As claims are submitted retrospectively, the number of audits and samplings already carried out will be higher. No claims have been paid to date but we anticipate the first batch of payments shortly.

This pattern is to be expected in running a novel programme and was considered as part of the planning phase. It is anticipated that applications for both carbon audits and soil tests will continue, and experience from other schemes suggests that they will likely reach a peak towards the closing date.

Feedback from Agricultural Colleges, agents and soil sampling companies is that there continues to be interest in the scheme and agents tell us they are very busy dealing with enquiries. This indicates that more applications will come through in 2022-23, and we can also look forward to further uptake of these baselining measures in financial year 2023-24.

We are proactively encouraging the sector via ARIOB, Scottish Rural Network, social media, our stakeholder networks and local Area Offices and agent contacts. In addition, we will be contacting producers to remind them of the opportunities of Preparing for Sustainable Farming (PSF) for this year and next.

We recognise that we will need to continue working closely with the sector to encourage them to participate in the pilot schemes. The aim of a pilot is to learn and improve, and we will very much look to do that in the next phase of the NTP.

Fisheries and Marine Scotland

The Committee asked for further information about the “risk-based approach” to marine protection and what action is being taken to ensure Marine Scotland’s enforcement obligations are being met.

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Marine Scotland currently uses a risk-based approach, supported by data and intelligence, to target areas of highest concern. This allows us to prioritise the use of our land, sea and aerial assets to provide effective monitoring and control of marine activities and meet our obligations under marine and fisheries legislation. The risk and intelligence team analyse on average 2500 intelligence reports each year, along with data from approximately 50,000 fishing voyages meaning we have a strong evidence base to task and target our operations and we review this tasking on a weekly basis.

In addition to this targeted work we have capability to respond to immediate reports of suspicious activity or intelligence eg, from our 24 hour monitoring centre and Remote Electronic Monitoring (REM) team. For the year up to 31 October 2022 our MPVs have carried out 382 inspections of vessels at sea, our surveillance aircraft have undertaken 124 patrols, and our coastal offices inspected 5358 landings. Additionally, we have carried out 112 fish farm inspections relating to the use of acoustic deterrent devices and have been involved in cases relating to the licencing of marine activities and control of invasive species.

Marine Scotland continues to review operational capability and approach to ensure it meets the changing demands of the marine environment and our obligations to provide an effective, efficient and proportionate surveillance, control and monitoring system. The rolling out of tracking and Remote Electronic Monitoring across the inshore fleet, and the inshore cap on vessel activity are examples of how we will improve our capability.

Food and drink supply chain

The Committee asked for an update on the Food Processing, Marketing and Co-operation (FPMC) grant scheme.

As we discussed at the pre-budget scrutiny session, our capital spending ambitions have been impacted by global trends and exacerbated by UKG decisions. In light of inflationary pressures and wider market conditions, we have had to make hard choices to reprioritise our 2023-24 capital budget. One of these decisions is that we will not be running a further round of the scheme for grants to be drawn down in 2023-24. However, we have taken this as an opportunity to review the scheme, to look at how it can best serve the needs of the food and drink industry and address the unique challenges it faces. One of the criticisms of the scheme since we have left the EU has been about the one-year funding cycle, and how tight this makes it for all concerned to apply for, assess and then undertake projects. We will particularly be looking at ways to extend the window for successful applicants to undertake their projects, and ensure that smaller business continue to be able to make good use of the scheme. Therefore, while grants will not be drawn down in the coming financial year, we will be looking to open applications for a new scheme to address these challenges, over the course of 2023/24.

On implementation of the Good Food Nation (Scotland) Act 2022, I am in a position to provide a proposed timeline. We intend to commence section 3 of the Act pertaining to the publication of national good food nation plans in spring 2023. The draft national good food nation plan will then be laid before parliament in spring 2024 and the final version published in autumn 2024. The Scottish Food Commission will also be established in autumn 2024 ready to assume its functions in relation to the first national good food nation plan. I will of course keep Committee apprised on timescales and implementation plans at the appropriate intervals.

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Islands Programme funding

Given the detailed nature of the Committee's questions on Islands I have drawn up an annex with further information.

I trust this letter provides you with the additional context around the Islands Plan and associated Islands programme funding, as well as the impact of the cost crisis on the RAI budget. I also hope I continue to provide assurance to the Committee that despite the funding challenges this government faces, my priorities remain supporting rural, island and coastal communities and businesses to flourish and thrive under the most difficult of circumstances.

Yours sincerely,



MAIRI GOUGEON

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Annex A – Islands Programme

The Committee asks for further information about the impact of the overall reduction on the 2023-24 [capital] budget and what assessment has been done of the impact of the reduction on the delivery of the Islands Plan?

As we discussed, spending reviews set out potential future high level multi-year financial parameters for portfolio funding envelopes, the envelopes are not portfolio budgets. The flat and falling capital grant allocation Scotland has received from UKG, coupled with the impact of high inflation, places significant additional pressure on our capital programme. This means that we cannot meet all of our capital ambitions in the way we would want to within this spending review period.

That said, this Government's commitment to the Islands does not just include investment through my portfolio directly, but through other funding that we have committed across Scotland. This is demonstrated through the National Islands Plan Annual Report [National Islands Plan: annual report 2021 - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/national-islands-plan-annual-report-2021/pages/1-introduction.aspx) which sets out the progress across all portfolios towards delivery of the Plan's 13 Strategic Objectives each year. I remain committed to supporting islands investment and will continue to review this as part of future annual budget processes.

The Committee recommends this concern [application process] be addressed as part of the Scottish Government's and the SFT's review of the direct allocation and competitive models. Following this review, the Committee would appreciate further information on what steps the Scottish Government and SFT are taking to support local authority capacity and whether additional budget will be available to support this.

The local authorities' input is very helpful and my officials have reflected on the feedback provided. Scottish Government will continue to work collaboratively and build on previous engagement with local authorities and other stakeholders to review delivery processes for the 2023-24 Islands Programme.

My officials have considered both the merits and challenges of the direct allocation and competitive bid models. The 2023-24 Islands Programme will be delivered as a simplified and streamlined bid model – key elements of which are outlined in more detail below.

This will allow the Islands Programme to continue to operate as a strategic programme to help improve the outcomes for island communities, whilst addressing the key concerns of our local authorities and delivering on the 13 Strategic Objectives of the National Islands Plan

The competitive bid method, with local authorities as the lead applicants, builds partnerships across communities, the public, private and third sector, whilst delivering national strategy and policy across our islands. With the support of my officials and their colleagues in the SFT, this method allows lessons learned to be shared to support collective improvement across islands. The assurance and review of the programme under this model helps inform future plans for the Islands Programme and the National Islands Plan.

Subject to final budget arrangements and approvals, our intention is for the SFT to continue as a delivery partner for the 2023-24 Islands Programme to ensure further support for local authorities.

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The Committee recommends that the Scottish Government and SFT reflect on the feedback provided by local authorities and work with them to simplify and streamline the application process for future funding rounds. In particular, the Committee suggests that further consideration be given to:

- The complexity of the application process and the information required to assess bids;***
- Where additional capacity could be provided by SFT and the Scottish Government to support authorities complete successful applications;***
- How the application process can be streamlined to avoid the need for multiple revisions to an application; and***
- The timetabling for applications and how they relate to other funding streams.***

I note the request to simplify and streamline the application process. My officials have reflected on the feedback given and will address each recommendation as follows:

- The application form will be simplified; it will be significantly reduced in length with applicants asked to reduce background information to allow for a more streamlined application and to avoid duplication across sections.
- The SFT will continue as delivery partners for the Islands Programme and provide additional support for our local authority partners. This will include support to complete applications, building on positive feedback from the Investment Panel and 2022-23 applicants. SFT will continue to help local authorities develop a priority Place-based approach. They are working with my officials to devise a workshop which will bring local authority officials together to learn and share information and approaches with the aim of improving the coherence and strength of future applications to capital programmes generally.
- The 2022-23 Islands Programme was limited to a one round application process with a ceiling of five applications per local authority. This approach will be replicated for 2023-24. It is anticipated that familiarity with the process from last year will also reduce the demands on officers' time and the need for multiple revisions. The SFT's support will give each application the best opportunity of success by highlighting areas where further information or emphasis may have been required to meet the Programme's criteria. It should be noted that local authority officers valued this support from SFT during the application process.
- Our review of previous years and the evidence the Committee has heard, have helped inform timescales for 2023-24. The 2023/24 Islands Programme will be launched in early 2023, with the aim of announcing awards in early May 2023 - two months earlier than in 2022-23.
- Support from my officials and the SFT will also aid the development and submission of deliverable propositions – emphasising the need for partnership and deliverability.
- The Committee will appreciate that the timetabling and amendments to other funding stream schedules are sometimes outwith our control. For example, in 2022 we saw the long delay in opening the UK Government's Levelling-Up application portal which impacted local authorities workload and resources. However, within these constraints, my officials are working to create timescales for launching the Islands Programme in future years which, where possible, will provide greater lead in time to accommodate other external pressures.

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- My officials will continue to collaborate with our local authority colleagues to minimise future deadlines during particularly busy periods of the year.
- For 2023-24 my officials will work to ensure where possible that there are no conflicting deadlines which might impact the draft application deadline.

The Committee recommends that the Scottish Government review the various capital funds available to island communities and see how they can be amalgamated or streamlined. The Committee also recommends that consideration be given to how Argyll and Bute Council and Highlands Council might be supported to develop their own island plans like North Ayrshire Council.

Island Communities are able to access a wide variety of capital funds from other portfolios across Government, ranging from housing, climate change to education, and arts and heritage. My officials will continue to work across Scottish Government to identify opportunities for targeted and collaborative investment to strengthen and sustain island resilience, and understand what opportunities exist to ensure wider Scottish Government funds are targeted and utilised within island contexts.

We will continue to discuss shared opportunities, and capture what works across the islands to inform the next iteration of the National Islands Plan.

I am heartened by the positive feedback regarding the Islands Officer Pilot Project that we have undertaken in collaboration with HIE and North Ayrshire Council. My officials will ensure that the learning and good practices are captured from this project, and are exploring possibilities as to how Argyll and Bute Council and Highlands Council might be supported in a similar way.

The Committee asks the Scottish Government and the SFT to reflect on whether further changes could be made to allow greater representation of island communities.

I note the ask for greater island-based representation on the Islands Programme Investment Panel. My officials are considering additional island based non-conflicted potential members with infrastructure investment experience. They will work towards increasing the number of Investment Panel members based on islands or who have extensive island specific investment skills.

The Committee recommends that the Scottish Government provide an indicative multi-year allocation to local authorities.

Subject to Scottish Government and UKG budget announcements, we will work towards providing indicative multi-year allocations of the Islands Programme for the remainder of the Programme life (to 2025-26). By definition, these can only be indicative as the actual allocation will be subject to the annual budget setting process, in line with priorities and plans and based on the latest fiscal information.

The Committee agrees that “critical local infrastructure” can be funded in a multitude of ways and believes building a pipeline of projects is key to ensuring delivery. We recommend the SFT continue to work with local authorities to identify and build project readiness. These projects could be about improving or making better use of existing infrastructure as well as building new critical infrastructure.

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Scottish Government has funded the SFT to continue the development of the islands element of its Infrastructure Pipeline. This captures future projects with values in excess of £2m and will establish a robust and consistent process to baseline infrastructure developments in island communities.

As noted previously, the SFT will continue to support existing Islands Programme investments by providing regular updates, monitoring and support. For 2023-24, the SFT will help local authorities to identify and build project readiness of future projects with support from its Net Zero, Digital and hub colleagues.

Drawing on your comments about the cross-portfolio nature of islands funding, the Committee recommends 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.

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 [National Islands Plan: annual report 2021 - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/national-islands-plan-annual-report-2021/pages/index.aspx) 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.

In the light of the cost-of-living crisis facing island communities, the Committee asks whether the Scottish Government has given consideration to prioritising key objectives of the Islands Plan to focus on the key issues – transport, connectivity, jobs and housing – highlighted by local authorities.

The first revision to the National Islands Plan Implementation Route Map [National Islands Plan: implementation route map 2022 - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/national-islands-plan-implementation-route-map-2022/pages/index.aspx) was published in September 2022 and details how we will deliver our priorities over the lifetime of the Plan. I met with the Islands Strategic Group in early November where it was agreed to focus on the cost crisis challenges facing island communities. Following this, as part of Scottish Government emergency response to the crisis, I established the Island Cost Crisis Emergency Fund - a direct allocation of £1.4m to the six island local authorities who have the flexibility to utilise the funds to support the needs of their communities.

The obligation under the Islands Act to publish a revised National Islands Plan in 2024 also provides a timely opportunity for my officials to take stock of the current Plan with our local authority partners, island communities and other stakeholders. In this way, we can ensure that the priorities set out in the next National Islands Plan continue to address the priorities of our island communities.

The Committee seeks assurances that the £5m will remain part of the overall Island Plan budget.

As we discussed at Committee, the Islands Bond is no longer progressing, However, I remain committed to exploring the opportunities to address the issue of depopulation on our islands, including through our National Islands Plan commitment to develop an "Addressing Depopulation Action Plan" which is due to be published in 2023.

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