

AGRICULTURE AND RURAL COMMUNITIES (SCOTLAND) BILL

FINANCIAL MEMORANDUM

INTRODUCTION

1. As required under Rule 9.3.2 of the Parliament's Standing Orders, this Financial Memorandum is published to accompany the Agriculture and Rural Communities (Scotland) Bill, introduced in the Scottish Parliament on 28 September 2023.
2. The following other accompanying documents are published separately:
 - Explanatory Notes (SP Bill 33-EN);
 - a Policy Memorandum (SP Bill 33-PM);
 - a Delegated Powers Memorandum (SP Bill 33-DPM);
 - statements on legislative competence by the Presiding Officer and the Scottish Government (SP Bill 33-LC).
3. This Financial Memorandum has been prepared by the Scottish Government to set out the costs associated with the measures introduced by the Bill. It does not form part of the Bill and has not been endorsed by the Parliament.
4. The Policy Memorandum explains in detail the background and the policy intention behind the Bill. The purpose of this Financial Memorandum is to explain any costs and savings associated with the measures introduced by the Bill, and as such it should be read in conjunction with the Bill and the other accompanying documents.

BACKGROUND TO THE BILL

5. The Bill is the framework for the measures the Scottish Ministers will use to develop the support that farming and rural communities need in order to adapt to new opportunities and new challenges, and to prosper in a changing world.
6. It will be the platform for measures focused on Scottish Government key outcomes: high quality food production; climate mitigation and adaptation; nature restoration; and wider rural development.
7. The Bill therefore enables Ministers to provide financial support for measures and schemes set up using the 'framework', and to set eligibility criteria and conditions for receiving

the support. It provides the powers that are needed to allow a smooth transition from current support measures, which are based on the former EU common agricultural policy scheme.

8. The challenges faced are considerable. Scotland needs to move away from the current EU CAP schemes, while staying aligned with the EU on outcomes. There is a need to ensure a just transition to net zero farming. Every effort must be made to mitigate the nature crisis. Rural communities must be helped to thrive, and there is a need to protect the rural economy. All of this will require a sustained and flexible effort over many years. It is not practical to lay out detailed schemes in primary legislation as this would remove the opportunity to create flexibility to respond to future unforeseen changes, which is why this framework Bill is the right way forward. Secondary legislation will lay out detailed schemes which will be within the framework of primary legislation but and able to respond to change.

9. The immediate and overarching policy objective for the Bill is therefore to use the powers in the Bill to realise the Vision for Agriculture.¹ It delivers on the Scottish Government commitment to continue to support agriculture and rural communities.

10. The powers in the adaptive framework will enable the Scottish Ministers to respond flexibly to future social, economic, and environmental changes, challenges and opportunities. This enables tailored provisions and support to be implemented through secondary legislation, and further adapted as appropriate in the context of a new Rural Support Plan to meet future challenges and uncertainties including climate impacts, food security risks and challenges and market changes.

FUTURE SUPPORT FRAMEWORK

11. The Bill creates powers that will facilitate the adoption of a four-tiered approach to deliver the Future Support Framework. Whilst the bill does not provide details on the four tier system, it is envisioned such a tier system will be utilised in the future and costing are therefore provided on this basis.

Tier 1: Base

12. This mechanism will 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 including for environmental stewardship, animal health and fair work as set out by Ministers, whilst the market provides financial return for the agricultural products. In order to support the sector effectively, the level of support should provide sufficient income to maintain expected standards around agricultural activity within an affordable budget pool.

Tier 2: Enhanced Payment Mechanism

13. This mechanism seeks 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. This seeks to

¹ [Sustainable and regenerative farming - next steps: statement - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/next-steps-statement/2023-09-28/summary/2023-09-28.pdf)

achieve a higher level of performance than the current Greening mechanism² which has fallen short on delivery for nature and has made very little contribution on climate objectives. The mechanism is intended to be available for universal uptake by all farmers and crofters eligible for support. It has significantly wider reach than the current Agri-Environment Climate Scheme (AECS).

14. The level of support must provide sufficient incentive to drive positive action for nature and climate across farms and crofts throughout Scotland. The mechanism should also incentivise positive land management, including integrated land management such as trees stitched into farmland and management of peatland in favourable condition. This may be challenging and consideration of the costs to the farmer of different interventions compared to potential remuneration for them may drive behaviours.

15. This mechanism will provide a platform to build momentum for private sector green finance investment by offering financial support explicitly linked to action for nature and action for climate on farms and crofts which should in turn give the land manager confidence to engage with private market investment in nature, and the investor confidence in the land manager's ability to deliver the nature outcomes. Green finance is investment that supports economic growth and produces environmental benefits.

16. Establishment of the necessary Measurement, Recording and Verification mechanisms underpinning the Enhanced payment is needed to show they are delivering the benefits that they are being supported for and demonstrate value for money use of public funds. It will also allow farmers and crofters to demonstrate their value to the private sector in order to drive value in their businesses. This is both in terms of value for market goods (the sustainability of the agriculture produce) and in terms of novel green finance, such as payment for carbon or nature.

17. Moreover, if the Scottish Government can measure and value outputs and outcomes for non-market goods (action for nature and climate) or make non-market benefits tradeable, that then "internalises" costs and benefits associated with nature and climate actions. This should lead to more efficient businesses and better outcomes. Once environmental benefits have a market value and are tradeable, there will be increased incentives to deliver them, creating a potential future source of green finance income to the sector.

Tier 3: Elective

18. The elective payment tier provides for 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. This tier allows for businesses to proactively apply to participate in the delivery of the intended outcomes. In some cases the funding available will be allocated competitively as it is anticipated that budget constraint will necessitate the allocation of funds according to best value in this tier.

² Greening was introduced in 2015 as a payment for agricultural practices beneficial for the climate and environment: <https://www.ruralpayments.org/topics/all-schemes/basic-payment-scheme/basic-payment-scheme-full-guidance/greening---bps/greening-guidance-2024/greening---overview/>

Tier 4: Complementary

19. Tier 4 will complement Tiers 1-3 delivering access to support and advice, as well as continuous professional development (CPD). Supporting development of the skills and advice required to uptake the suite of management options, new practices and innovation under Tiers 1-3. Tier 4 will also seek to connect farmers and crofters with support for tree planting, woodland management and associated supply chain support; and peatland restoration and management. Support mechanisms developed under this tier could support individuals or groups involved in delivering targeted outcomes who are not necessarily recipients of support under tiers 1, 2 or 3.

FINANCIAL SUPPORT TO THE SECTOR

20. Currently support is delivered through the common agricultural policy carried forward from the EU and is topped up by the SG to provide an overall budget of £692m in 2023/24 (including forestry grants). This support is currently disbursed through a range of schemes in pillar 1 (direct support, £485m) and pillar 2 (indirect support, £207m). The UK treasury has committed to ongoing resource funding at this level ring fenced of £621m for agriculture support and rural economy, which includes rural development and forestry grants, until the end of the UK parliament term. The Scottish government intends to continue to support the sector using this ring fenced budget (and additional Scottish Government funds (£71m in 2023-24)) by applying the funds through the four tiers proposed by the Bill.

21. The Bill confers the power on Scottish Ministers to provide support for the purposes set out in the schedule and makes a range of provisions in connection with the support framework. The precise split of funding across the four tiers of the Future support framework, which will be facilitated through this power, has yet to be determined and is a key component of the codesign work currently underway, however, in broad terms, the 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. Note that, in this context, the budget for Tiers 1 and 2 would include the Less Favoured Area Support Scheme (LFASS) budget of £66m, which nominally sits in Pillar 2 of the legacy EU cap.

22. It is the Scottish Government's intention to allocate the remainder of the available funding to tiers 3 and 4 (elective and complementary support). In addition, the funding for forestry grants is linked to increasing tree planting targets within the Scottish Government Climate Change Plan³ and as a result has been increased in recent years. 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.

23. The quantum of the funding available for agriculture support and rural economy beyond the term of the current UK parliament is unknown and is the subject of ongoing dialogue between the Scottish and Westminster governments, as well as the other devolved administrations. EU Exit means Scotland no longer has long-term certainty of funding. HM Treasury have provided yearly allocations for the current UK Parliamentary term, however, there is no funding commitment from

³ [Securing a green recovery on a path to net zero: climate change plan 2018–2032 - update - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/climate-change-plan-2018-2032-update/pages/100/index.html)

2025. Agriculture requires future funding certainty due to its multi-annual funding commitments and long lead-in time for farmers, crofters and land managers. Co-development and co-design with rural partners will be the foundational approach to the development of future support structures and delivery.

24. To note, these figures do not include Peatland Action funding as this funding relates to a different area of funding in Scottish Government.

25. The table below (Table 1) 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 (£m) for 2023-2027.

26. In Table 1, 2023-24 is split out to show Resource, Capital and Total budget to give an indication of the budget classifications. There are only a few Capital budgets across the lead Directorate, hence the number zeros in the 20230-24 Capital column.

Table 1: Projected Expenditure, analysed between Provide Financial Support to the Sector and Associated Delivery Costs.

CAP Funding / Future Support Framework							
	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* ⁴	485.0	0.0	485.0	485.0	485.0	485.0	485.0
ARE: CAP Pillar 2 Budget* ¹	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
TOTAL CAP BUDGETS	620.7	71.2	691.9	691.9	691.9	691.9	691.9
<u>Other existing financial support provided to Sector from this Bill</u>							
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 &	12.1	0.0	12.1	12.1	12.1	12.1	12.1

⁴ Ring-fenced funding from HMT is uncertain after 2024-25 but working assumption is that funding levels will be retained from 2025-26 onwards

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Rural Networking							
Total	50.0	0.0	50.0	50.0	50.0	50.0	50.0
Total Financial Support to the Sector	668.2	73.7	741.9	741.9	741.9	741.9	741.9
Existing Costs on the Scottish Administration (Delivery Costs only)							
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
Total	79.5	9.0	88.5	88.5	88.5	88.5	88.5
Transition Costs to Deliver Future Support Framework							
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
Total	1.0	6.0	7.0	18.0	15.0	15.0	9.0
Total Costs to the Scottish Administration	80.5	15.0	95.5	106.5	103.5	103.5	97.5
Total Costs to the Scottish Administration	751.2	86.2	837.4	848.4	845.4	845.4	839.4

27. All future year budgets, with the exception of transition costs, are retained at 2023-24 budget levels and will be subject to affordability and inflationary increases.

28. In addition to the Future framework support structure, the powers in the Bill will provide support for priorities outlined below.

Forestry

29. The powers in the Bill will provide support for forestry priorities, to assist in meeting Climate Change mitigation targets relating to Forestry. The Bill confers the powers to Scottish Ministers to continue forestry support currently provided under retained EU law. This is currently carried out primarily through the Forestry Grant Scheme (FGS). The FGS is administered by Scottish Forestry, an Executive Agency of the Scottish Ministers responsible for forestry policy, support and regulations. The Forestry Grant Scheme funding for the 2023-24 financial year is £77.2m, as illustrated in the table above. As per the total budget for 2023-24 against the Forestry Grants row in Table 1, there is a Resource of £23.2m plus Capital of £54.0m, which equals a Total budget of £77.2m, as shown in the first budget columns in Table 1.

30. There will be no additional costs or immediate savings as a consequence of the inclusion of forestry powers which continue to allow ministers to make payments to support forestry activities. In future years, forestry expenditure is expected to reflect Climate Change Plan tree planting targets and remain broadly similar to current levels. It is anticipated that there will be opportunities for future administrative efficiencies as a result of simplifications to the regulatory framework for forestry grants under the proposed Bill and this may offer some savings in future years.

Food and Drink

31. The Fruit and Vegetables Aid Scheme⁵ 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.

35. Beyond the Fruit and Vegetables Aid Scheme, the powers in the Bill will provide support for food and drink priorities, and will facilitate some of the funds or grants below, which have been awarded this financial year or previously. It is important to note that all the funds or grants are decided and approved on a single year basis. As these grants are committed on a single year-

⁵ [Fruit and Vegetables Aid Scheme Guide - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/fruit-and-vegetables-aid-scheme)

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basis there is no commitment or guarantee that these will run beyond this financial year, or from April 2025. 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.

Food Processing, Marketing and Co-operation (FPMC) - £10.45m (for 2022-23)

- The FPMC scheme will be impacted from the introduction of this Bill. This scheme provides grant funding to businesses (or groups of businesses) within the Scottish food and drink sector to enable them to develop or create food processing facilities, including buildings and equipment; to market products in home and export markets; run pilot projects and feasibility studies; to run co-operative ventures to ensure more value is retained by both farmers and growers and to improve supply-chain efficiency.

Scotland Food & Drink funding - £5,000,000 for (2023-24)

- Scotland Food & Drink is a partnership of industry and the public sector to nurture, support and champion the people and products of Scotland's food and drink industry to help deliver continued and growing success. The Scottish Government supports the partnership with core funding on an annual basis to help drive sustainable growth in the sector.

Food for Life Scotland Programme - £490,000 (for 2023-24)

- The programme will increase the amount of healthy, locally sourced food served by local authorities in schools and currently operates in 17 Scottish local authorities. As well as aiming to put more Scottish food on the table, the wider benefits include: educating young people about food and culture, reassuring parents and pupils that their school meals are responsibly sourced, and freshly prepared with trained cooks, promoting fresh, local and seasonal food, ensuring that at least 75% is fresh and unprocessed and improving pupils' health by putting more fresh fruit and vegetables, fish, and wholegrains on the menu.

Grow Your Own - £186,000 (for 2023-24)

- Increase the amount of land available for community food growing, allotments and orchards.
- Improve food growing skills and knowledge to empower communities and individuals to grow their own food.

Food Education - £527,000 (for 2023-24)

- Support the Programme for Government commitment to increase farm visits; funding is provided to RHET (£220,000 for 23/24). The other £307,000 is provided to Education Scotland to deliver the Food for Thought education fund, providing grants of up to £3000 for educational establishments to deliver projects to promote food education.

Dairy Growth Board - £85,000 (for 2023-24)

- Provide co-ordination and collaboration around the delivery of Rising to the Top 2030.
- Provide Scottish presence at related key events, representing the Scottish dairy industry.
- Provide leadership in developing international markets.

Scottish Dairy Hub - £50,000 (for 2023-24) to:

- Provide a free to use information service, connecting farmers and suppliers.
- Provide a signposting service to improve technical efficiency and business planning.
- Provide advice on a wide range of issues including training and development.
- Provide information through phone, email and web based enquiry answering.

36. All of the above will follow the required financial / subsidy control / legal and Ministerial routes for approval, as per standard Scottish Government approach.

37. The Bill provides powers for Scottish Ministers to be able to declare exceptional market conditions and to be able to use certain powers as a consequence. As has been seen over recent years, unexpected events can impact negatively and severely on food supply and quality. One such example is the Pig Producers Hardship Support Scheme which made £1.8m available between 2021-23 to farmers affected by a temporary abattoir closure due to Covid. It is not possible to quantify the financial impact of such powers as exceptional market conditions are unknown, additional spend would create pressures upon Scottish Government budget. It is therefore crucial to have sufficient financial flexibility to support on short notice individuals and/or businesses that are essential to Scotland's economy. The Future framework support approach will allow for this flexibility and prioritisation.

Animal Health, Welfare and Genetic Resources

38. The Bill provides powers for Scottish Ministers to provide support on services to deliver regulation of animal health and welfare legislation and the systems that the Scottish Government needs to support this (such as the Animal and Plant Health Agency (APHA), veterinary surveillance and ScotEID for traceability). This support is largely focussed on detection and control of notifiable diseases (for example avian Influenza, foot and mouth disease and zoonotic infections). The programme budget for Animal Health, Welfare and Genetic Resources in 2023/24 is £30.5m. Future year budgets will be subject to annual budget negotiations through the budget process.

39. The powers in this Bill enable Scottish Ministers to choose to target support on the control of a wider range of diseases and on welfare improvements, areas that can improve both economic and environmental production efficiency. The new powers themselves do not create new administrative cost or spend above that already committed to support veterinary services.

Science and Advice for Scottish Agriculture (SASA)

Potato Cyst Nematode (PCN) Improvement Strategy

40. Scotland produces 80% of the UK's seed potatoes and production is threatened by a large number of pests and diseases. Potato cyst nematode (PCN) is principal amongst these pests and the project brings together government, academia, and industry to identify sustainable methods and practices to safeguard Scottish crop production from the damaging effects of PCN in future years. This year's budget (23/24) for the PCN project is £0.7m.

41. SRUC Crop Surveillance (ARE Operations): The SRUC Crop Monitoring Grant covers the provision of ongoing surveillance and monitoring of high-acreage arable crops in Scotland, through timely information and local commentary on crop establishment and growth stage; pest, weed, and disease pressures; and all in-season treatments to support on-farm decision making. Regular reports are published online to help farmers make decisions on farming practices, and particularly the use of Integrated Pest Management (IPM) to support the sustainable and appropriate use of pesticides. It therefore promotes Scottish Government objectives around protecting the environment as well as supporting farm business productivity. This year's budget (23/24) for the SRUC Crop Surveillance is £0.2m.

Public Good

42. Agricultural Wages and Rural Engagement within the Public Good Advice budget provides funding across each of the following:

- Pest Control: a 50% grant on actual costs is distributed to Pest Control Clubs for the control of fox predation during lambing period on hill and inbye land. This year's budget (23/24) for Pest Control is £0.035m.
- Legal Advice for Agricultural Wages Enforcement Team (AWET): Contract with Anderson Strathern to provide the AWET with legal advice on agricultural wages enforcement cases and where applicable for them to represent Scottish Ministers should a case go to an employment tribunal. There is a second contract to provide legal advice to the Scottish Agricultural Wages Board (SAWB) to provide employment law advice for during negotiation meetings in relation to the Agricultural Wages (Scotland) Order. Agricultural Wages enforcement is a statutory requirement for Scottish Ministers under the Agricultural Wages (Scotland) Act 1949. This year's budget (23/24) for AWET is £0.035m.
- Publications for and Sponsorship of SAWB: The team produce and publish the relevant Agriculture Wages (Scotland) Order and Guide (annually) as well as the attendance fees for the five independent members of SAWB. The SAWB is an autonomous body under the Agricultural Wages (Scotland) Act 1949 and is empowered to set minimum rates, holiday entitlement and certain other conditions of service for agricultural workers in Scotland, with 5 independent members appointed by Scottish Ministers, (one of whom is designated Chair). This year's budget (23/24) for SAWB is £0.035m.

Rural Communities and Rural Networking

43. Rural Communities: In preparation for the forthcoming superseding of retained EU law (REUL), the Scottish Government are currently reviewing the support and funding for rural communities to ensure alignment with strategic priorities and other policy action in this space. Following the end of the EU LEADER rural community development programme in December 2021, the Scottish Government have continued to provide support, as required by REUL, via a programme known as Community Led Local Development (CLLD). REUL requires that a minimum of 5% of SRDP spend is directed to CLLD (this requirement will no longer be in place when REUL is superseded). The programme budget for Rural Communities in 2023/24 is £11.6m.

44. Rural Networking: REUL also requires that the Scottish Government continues to operate and maintain the Scottish Rural Network (SRN). As with support to rural communities, the Scottish Government are currently reviewing the approach to rural networking to ensure alignment with strategic priorities and policy action after the Bill comes into force. The programme budget for Rural Communities in 2023/24 is £0.5m.

Improving Access

45. There will be no additional costs or savings as a consequence of the powers in the Bill which allow ministers to continue to make payments to landowners to provide access provisions. The Bill ensures that the powers which exist at the moment to provide funding for access through AECS will continue to be available, however, for the current, year access has been excluded from the list of permitted activities.

46. AECS budgets form part of Pillar 2 funding. Decisions on available budgets will determine future spend through the Future framework support. Outlined in the table below (Table 2) is spend from previous improving access funding, which is expected to be similar in future years.

Table 2: Improving Access: Prior Year Contracts and Related Commitments

	2015	2016	2017	2018	2019	2020	2021	2022	Total
Total Commitments £m	0.72	1.48	2.23	3.38	0	0	3.35	1.16	12.32
Accepted Contracts	16	34	36	49	0	0	38	9	182

COSTS ON THE SCOTTISH ADMINISTRATION

47. The Future framework support set out above, when enacted, will replace existing CAP payments. The 2023-24 budgeted costs to administer payment, compliance and supporting services are £61m. This represents approximately 11% of the £692m budget for all current schemes. Future administrative costs under the proposed Future framework support are currently unclear and will depend on the chosen delivery model. Options for this delivery model are still being developed through the ARP Outline Business Case. 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.

48. It is anticipated that future operational costs to government (after the initial transition period) will be at a similar level to current costs, however, the Tier 2: Enhanced payment mechanism will be a novel method of providing support and as such transaction costs for both government and support recipients are uncertain at this stage. The enhanced payment mechanism is intended to promote specific outcomes for nature and climate and verification of these outcomes, or the actions taken to secure them, will necessarily incur additional cost compared to the current (basic payment and greening) schemes. A specific objective of the agricultural reform programme will be to minimise transaction costs for both government and businesses.

49. Recasting Table 1, Table 3 below provides summary information on the full budget requirement for the Scottish Administration over the 2023-24 to 2027-28 period, including those budgets supported by UKG ring-fenced funding. By spending area, these budgets reflect the aggregate cost of: financial support provided to the Sector; existing administration costs; and transition costs for a Future Support Framework.

50. In Table 3, 2023-24 is split out to show Resource, Capital and Total budget to give an indication of the budget classifications. There are only a few Capital budgets across the lead Directorate, hence the number zeros in the 2023-24 Capital column.

Table 3: Total Scottish Administration Costs by Spending Area

	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
	£m	£m	£m	£m	£m	£m	£m
Paying Agency (RPID & DISD)	650.6	32.2	682.8	693.8	690.8	690.8	684.8
Scottish Forestry	31.7	54.0	85.7	85.7	85.7	85.7	85.7
Food & Drink	8.6	0.0	8.6	8.6	8.6	8.6	8.6
SASA	12.8	0.0	12.8	12.8	12.8	12.8	12.8
Public Good Advice	0.2	0.0	0.2	0.2	0.2	0.2	0.2
Animal Health Welfare	34.4	0.0	34.4	34.4	34.4	34.4	34.4
Rural Communities & Rural Networking	12.9	0.0	12.9	12.9	12.9	12.9	12.9
Total	751.2	86.2	837.4	848.4	845.4	845.4	839.4

51. The table below (Table 4) provides a breakdown of the anticipated administration costs for delivering CAP payments through the Paying Agency this financial year (2023-24) (£m).

Table 4: Paying Agency Cost of Administering Pillar and Pillar 2 Schemes

	Total (£m)	RPID	ISD
<i>Operating Costs (Resource)</i>			
Salaries	36.430	29.526	6.904
Administration costs (e.g. maintaining RPID Office estate and IT systems)	16.581	3.581	13.000
Income	-0.862	-0.862	0.000
Total	52.149	32.245	19.904
<i>Operating Costs (Capital)</i>			
IT contracts and services	9.000	0.000	9.000

52. As reflected in Table 1 above, there are also distinct delivery costs associated with providing financial support to the sector from Scottish Forestry (£8.5m), Animal Health and Welfare (£3.9m), Food & Drink (£2.2m), SASA (£11.9m), Rural Communities (£0.4m) and Rural Networking (£0.4m).

53. This is a transformational change across all four components of the operational model — process, systems, people (roles and competencies) and the operating structure needs careful management. Transformational change succeeds by co-designing with customers and ensuring employees have the skills to support.

54. Transformational implementation typically requires staff to take on new roles and responsibilities, and transitioning to these new roles requires investment in communicating effectively with customers and staff, and investment in learning new skills and the time to become proficient in them.

55. Costs on the Scottish Administration associated with the additional transition costs to deliver the change programme associated with embedding the Future framework support are set out below. The transition period to deliver a new payment framework will be the period 2023/24 – 2027/28 and estimates of transition costs are based on that timeframe.

56. With that in mind, the estimated total transition costs will be in the region of £64m in total. This 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. This figure excludes the £50m provided for the National Test Programme which is integrated into the Agricultural Reform Programme. The National Test Programme will support and encourage farmers and crofters to learn about how their work impacts on climate and nature, including offering financial support to carry out carbon audits, soil testing and nutrient management planning, establishing a clear baseline and options for action for all who participate. The measures developed by the farmer led groups are the basis of the National Test Programme. These measures, once tested and refined, will underpin enhanced payments, the detail of which will follow via secondary legislation. From

2025, the climate and biodiversity performance of businesses will determine the level of agricultural support payments the National Test Programme will ensure the right tools and support will be in place.

57. In addition to transition costs, there will be implementation costs to bring a new delivery model into service. These costs are currently excluded and will depend on the design costs that have yet to be confirmed.

58. The table below (Table 5) outlines the total transition costs, breakdown by year (£m).

Table 5: Transition Costs to the Future Support Framework

	23/24	24/25	25/26	26/27	27/28	Total
Additional Staff Costs	1	3	0	0	0	4
Digital Developments	6	15	15	15	9	60
Total	7	18	15	15	9	64

59. In relation to digital costs, which constitute the highest potential cost, the Agriculture Reform Programme is in the process of developing an Outline Business Case (OBC) in line with HM Treasury best practice (HMT 5 Case Model – Green Book). The Strategic Outline Case (SOC) was finalised a few months ago in June 2023, there are 2 more stages to come: the OBC is due to be finalised by end December 2023; and Full Business Case (FBC) by end March 24.

60. This business case will include the estimates of the digital cost directly attributable to the options for transition from the current delivery of CAP payments to the new Scottish approach envisioned by the Bill. The current indicative central estimate cost relating to digital transition aspects is £60m split over 2023/24 to 2027/28 financial years (excluding inflationary increases).

61. As the options and detailed requirements emerge for the new support arrangements, every endeavour will be made to adapt or enhance existing digital capabilities where practicable and cost effective to do so. However, the design of the foundation elements of the current digital capability is tightly tied to the current CAP rules. A Target Operating Model for the new support arrangements has still to be developed along with a route map to get there. Until the detailed requirements begin to emerge and the impact of change is known, more precision on costs and profiling is impossible. This indicative central estimate assumes moderate levels of change to existing digital services alongside new developments, with a build-up in the current financial year and a tail-off in 2027-28 as the new arrangements are fully bedded in.

62. To support the Bill (and in advance of both the detailed requirements and scheme design, and Business Case) Digital Information Services Division (DISD) has made a number of assumptions in costing (a best estimate) of possible future budget amounts in subsequent

years. The full range of change could be from £0 (if no change is required) through to a much higher figure if wholesale change is required (as an example, the previous Programme – Futures – which aimed to implement the major EU CAP 2015 revision, as well as significant IT modernisation and business change, did not deliver all the aims and benefits originally envisaged in its business case and had a cost of £178m).

63. There is an on-going programme underway to modernise the IT systems that enable the current agriculture support services and payments, some of which are over 20 years old. The costs included above are for **transformation only** and do not include the costs DISD will require to maintain existing services. This sits out with the Bill and ARP.

64. In relation to Tier 4, there is already a substantial programme of support available for farmers, crofters and landowners to develop their skills and this is being built on by considering what will be needed into the future. Although this is a cost to the public purse it is also a cost that is already incurred regardless of this Bill and the Scottish Government will seek to target that investment effectively to support future needs.

65. Current CAP subsidies are currently around £621m annually, provided through ring-fenced budgets through His Majesty's Treasury. Agreements are in place until the end of the 24/25 financial year but there has been no agreement yet on future budgets beyond this time when the EU transition is over. Whilst future budgets cannot be guaranteed before any agreement is reached, this Bill and the framework it will deliver is not designed to reduce investment in the sector and instead is designed to ensure that this public money is delivering and supporting public benefits (greenhouse gas emissions, nature restoration and food production) to greatest effect.

66. Provision is made for further details to be set out in secondary legislation and guidance. This activity would largely be treated as standard policy work and will be undertaken by the existing teams within the Scottish Government. As with most of the provisions introduced in this Bill there will be costs associated related to officials' time, for example to design, consult on and manage secondary legislation required for introduction of the provisions, as well as carrying out further impact assessments. It is anticipated that these costs will be met from within existing resources.

COSTS ON LOCAL AUTHORITIES

67. The Bill provisions will not introduce any new responsibilities for local authorities and as such will not result in any additional costs to local authorities.

COSTS ON OTHER BODIES, INDIVIDUALS AND BUSINESSES

68. Farmers, crofters and land managers currently receive around £0.7 billion annually in public subsidies under the CAP. The same people will continue to benefit from these subsidies under these proposals but those who deliver sustainable regenerative farming will benefit the most. In future, support will be focused on food production, actions that support nature restoration and reduce greenhouse gas emissions in a way that is economically and socially just. By maintaining base payments with conditions that all farmers, crofters and land managers should be able to meet if they choose, these proposals are seeking to ensure that there is support available to farmers, crofters and land managers engaging in agricultural production.

69. Whilst there may be costs associated with some of the interventions and measures that will be required for tiers 2 and 3 through the secondary legislation, the Scottish Government will seek to offset these providing appropriate support levels to farmers, crofters and landowners 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 the developing the detailed delivery mechanism through user centred design and co-development with the sector.

70. Various provisions in agricultural law are now redundant and the Bill will repeal them. These repeals will be cost-neutral.

71. Full impact assessments will be undertaken and published relating to the future use of powers sought through the Bill. Such assessments will include, although will not be limited to, a “Business Regulatory Impact Assessment”, “Equality Impact Assessment” and an “Island Communities Impact Assessment”, some of which are statutory requirements. These will be of greater detail than those being progressed for the Bill itself given the framework nature of powers sought and no specific use being set out. This process will inform the total costs.

This document relates to the Agriculture and Rural Communities (Scotland) Bill (SP Bill 33) as introduced in the Scottish Parliament on 28 September 2023

AGRICULTURE AND RURAL COMMUNITIES (SCOTLAND) BILL

FINANCIAL MEMORANDUM

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