Submission

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To:	Deputy First Minister and Cabinet Secretary for Finance and Local Government		
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Scottish Government Budget 2027-28 - Investing in the Future of Scottish Agriculture

Executive Summary

The next Scottish Government Budget must mark a decisive shift in the funding of Scottish agriculture.

For too long, the real-terms value of agricultural support has been eroded while the expectations placed on farmers and crofters have increased. Scottish agriculture is now being asked to deliver simultaneously on high-quality food production, food security, economic growth, climate change, biodiversity, animal welfare, rural employment, land management and the resilience of rural communities.

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Moreover, agricultural support represents a relatively small proportion of total Scottish Government expenditure – the overall Agricultural and Rural Economy (ARE) budget in 2026-27 was less than 1 per cent of the overall Scottish Government Budget. Yet Scotland's farmers and crofters are being asked to contribute to some of the Scottish Government's most important strategic priorities.

The Scottish Government cannot reasonably expect more from agriculture while continuing to provide less in real terms.

NFU Scotland recognises and appreciates the indicative financial commitments set out in the Rural Support Plan (RSP) published in March. However, in the 2027–28 Budget, NFU Scotland is seeking a substantial increase in agricultural support, a genuinely ring-fenced settlement and multi-annual funding protected against further real terms erosion.

NFU Scotland is clear that a minimum £183 million increase in agricultural support in 2027–28, taking the current indicative four-tier settlement of around £677 million towards £860 million, is required if Scottish agriculture is to deliver the outcomes required – not least the Scottish Government's priorities of economic growth and climate action.

This must then be followed by a commitment to protect that funding in real terms through to 2030 and beyond.

This is not a blunt request for more financial support for farmers and crofters. NFU Scotland's asks are a reset of the public investment required to help deliver Scotland's economic, environmental and social objectives.

NFU Scotland's position on the Scottish Government Budget 2027-28 can ultimately be distilled into eight clear asks

- **Increase the agricultural support budget -** Provide at least £183 million additional funding in 2027–28, taking the current £677 million indicative settlement towards £860 million.
- **Establish a new funding baseline -** Use the 2027–28 Budget to reset agricultural support following years of real terms erosion.

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- **Ring-fence agricultural support -** Create a clearly identifiable agricultural support settlement within the Scottish Budget, protected from competing pressures within the wider rural affairs and ARE portfolio.
- **Provide genuine multi-annual certainty -** Publish a clear funding trajectory through to 2030 and beyond, rather than relying on flat cash settlements.
- **Protect the real terms value -** Introduce annual inflationary ('agflation') protection so that agricultural support does not continue to decline in real terms.
- **Support active farming and crofting -** Ensure at least 70 per cent of agricultural support is directed through Tiers 1 and 2, with Tier 1 sufficiently funded to underpin active agricultural and food production.
- **Invest in transition and productivity -** Increase capacity for capital investment, productivity, resilience, new entrants, generational renewal and environmental delivery.
    - Specifically, there should be a clear commitment to re-run an improved Future Farming Investment Scheme (FFIS) in 2027 and throughout the period of the Rural Support Plan 2026-2031 and with an enhanced dedicated budget.
    - In addition, there should be a clear commitment to re-run the Food and Drink Processing Scheme Scotland (FDPSS) in 2027 and throughout the period of the Rural Support Plan 2026-2031 and with an enhanced dedicated budget.
- **Demonstrate value -** Introduce transparent annual reporting demonstrating the economic, food, environmental and rural outcomes generated by agricultural support – i.e. the return on investment generated by agricultural support.

Background

Scottish agriculture generates a gross output of around £5.1 billion annually and is the cornerstone of Scotland's rural economy, supporting thousands of businesses and jobs across the supply chain.

The sector's output also provides the seedcorn for the wider Scottish food and drink industry, which is now worth around £19 billion per year and which supports around 130,000 jobs.

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The publication of the RSP provides an important foundation for Scottish agriculture – and Scottish Government too.

It establishes a clear framework for the transition towards the four-tier framework of future support and the outcomes expected from agricultural practices and agricultural land use and provides welcome visibility of the Scottish Government's intention to support active farmers and crofters through to 2030 and beyond.

The commitment to multi-annual certainty is particularly important. However, certainty of funding cannot simply mean certainty that the cash value of agricultural support will remain unchanged while its real value declines.

The current indicative settlement of approximately £677 million per year provides a useful baseline, but a flat cash settlement over several years is, in practice, a declining settlement.

Rising (variable) input costs, machinery costs, labour costs and the wider cost of running agricultural businesses mean that the purchasing power of support will continue to diminish unless the settlement itself increases.

In addition, this is against the operating backdrop of more extreme weather events, increased animal and plant disease risks, and volatile output prices – regardless of the agricultural sector.

This is why the next Scottish Government Budget must establish a new funding baseline, rather than simply rolling forward the existing one.

The multi-annual certainty of the RSP is welcome, but that certainty must not equate to a certainty of further real terms declines in the value of support.

The Fiscal and Financial Context

The UK Government's June Spending Review (SR25) gave the Scottish Government the fiscal headroom and multi-year clarity needed to now make a firm, multi-annual funding commitment to farming and crofting – a clear 'line of sight'.

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SR25 has set departmental limits to 2028-29 (resource) and to 2029-30 (capital), and the UK Government has made it clear that devolved governments (including the Scottish Government) will receive higher block grant consequentials as a result. See below.

Scottish Government's Block Grant Settlement[1] as Set Out in the SR25

£ Bilion (current prices)	Outturn 2023-24	Plans 2024-25	Plans 2025-26	Plans 2026-27	Plans 2027-28	Plans 2028-29
Scottish Government	43.4	45.8	48.1	49.8	50.8	52.1

That creates a predictable revenue envelope that the Scottish Government can allocate to the ARE portfolio across the SR25 period.

The certainty provided by the SR25 - via Barnett consequentials and a multi-year resource envelope - can be translated by the Scottish Government into a dedicated, multi-year package for agricultural support, capital investment, advisory services and risk-management measures so Scottish agriculture can deliver for food security, net-zero targets, nature recovery, and a stronger rural economy.

The UK approach means the block grant includes an increase. It is now for the Scottish Government to decide priorities within devolved powers. NFU Scotland has already urged to use that discretion to commit to an increased, multi-annual and ring-fenced funding settlement for agriculture – and is again calling on the Scottish Government to make that commitment.

The Case for an Increased Agricultural Budget

It is clearly evident that agricultural inflation ('agflation') has significantly eroded the 'buying power' of agricultural and rural development support over time as annual support budgets have remained static in nominal terms.

[1] Spending Review 2025 (HTML) - GOV.UK

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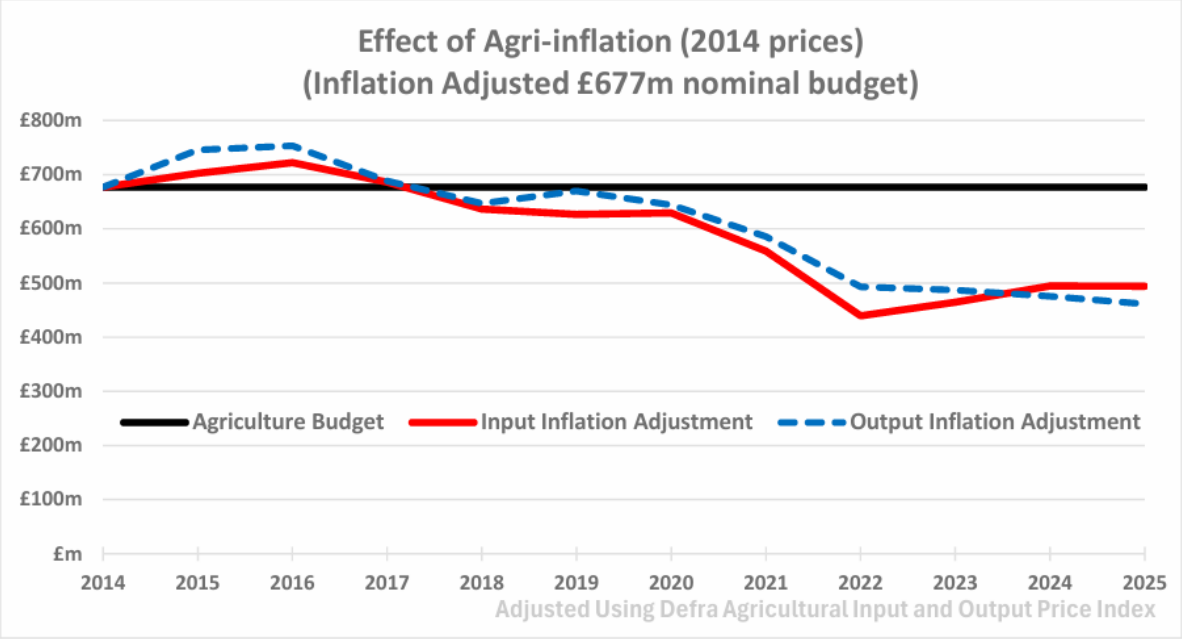
Using UK Government (Defra) agricultural input and output price indices, the inflation-adjusted £677 million agricultural support budget is shown below. After accounting for input cost inflation, only £493 million of agricultural inputs could be bought in 2025 compared to £677 million in 2014 (a real budget decrease of 27 per cent).

This is a stark reminder of the reality that achieving all expected outcomes from agriculture and land management will require a larger overall budget.

As a minimum, the ARE portfolio budget should be increased by 27 per cent to £860 million.

The Scottish Government Budget 2027-28, and the commitments going forward in the RSP, should include inflation-adjusted ARE budgets, using current agricultural inflation rates, to demonstrate the rigour of the budget assessment that underpins these indicative budget allocations.



The case for increased funding is further strengthened by the scale of the policy expectations now being placed on Scottish agriculture. The Agriculture and Rural Communities (Scotland) Act 2024 and the RSP establish an ambitious framework in which farmers and crofters are expected to contribute significantly to

- High-quality food production and food security
- sustainable and resilient agricultural businesses

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- climate change mitigation and adaptation
- biodiversity recovery and nature restoration
- soil and water management
- animal health and welfare
- rural employment and economic activity
- the resilience of rural communities
- the sustainable management of Scotland's land

These are important and legitimate public objectives. However, they cannot be achieved simply by changing the rules governing agricultural support – i.e. additional conditionality.

They require viable agricultural businesses with sufficient confidence and capacity to invest, adapt and remain in production. That is the fundamental economic relationship that should underpin the next Scottish Government Budget – especially given the Scottish Government's aspirations for economic growth.

If the Scottish Government wants agriculture to deliver more public value, it must be prepared to invest more in the businesses delivering that value.

NFU Scotland does not see the debate over the Scottish Government's funding of Scottish agriculture as simply restoring historical levels of farm support.

The future agricultural support system is changing, and rightly so. Public money should be better targeted towards active farming and crofting and towards businesses that are delivering the Scottish Government's economic, food production, climate and environmental objectives.

This strengthens the case for increased funding. Agriculture is a productive sector of the Scottish economy.

It supports economic growth and activity throughout the food and drink supply chain and underpins employment, investment and economic activity across rural Scotland.

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The public investment made through agricultural support is an investment in Scotland's productive capacity, food and drink sector growth, and rural and wider economy – it fuels the engine of Scotland's future prosperity.

The alternative is to allow the productive capacity of Scottish agriculture to weaken and then face the consequences through reduced domestic production, greater reliance on imports, weaker rural economies and increased vulnerability to international shocks.

Investing in Resillience

The experience of recent years has demonstrated the vulnerability of food and agricultural supply chains to geopolitical instability, energy and fuel prices, fertiliser costs, disease risks, extreme weather and international market disruption.

Food security can no longer simply be a policy aspiration. It requires maintaining a viable domestic agricultural sector capable of producing food in Scotland.

That does not mean supporting production regardless of environmental or economic performance. It means creating the conditions in which efficient, productive and sustainable Scottish farms and crofts can remain viable. This is precisely why future direct support should be better targeted towards active farming and crofting.

A stronger agricultural budget would therefore be an investment not just in farm businesses, but in national resilience.

An Increase in Agricultural Funding

NFU Scotland is seeking at least £183 million of additional agricultural support in 2027–28 within the next Scottish Government Budget

Against the current indicative £677 million annual settlement, this would establish a new baseline of approximately £860 million. This represents an increase of around 27 per cent. It is significant, but it is also proportionate to the scale of the challenge facing the sector and to the expectations the Scottish Government is placing upon it.

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Importantly, the £183 million should not be regarded as a one-off injection. It should be the first step in restoring the real terms value of agricultural support, with subsequent funding protected against inflation through to 2030 and beyond.

NFU Scotland is therefore seeking an annual inflationary adjustment reflecting the rising agricultural input costs ('agflation') faced by agricultural businesses rather than relying solely on general consumer price inflation. This is important because agricultural businesses face particular exposure to fuel, fertiliser, machinery, feed, labour and other input costs which are increasingly volatile within a significantly rising longer-term upward trend.

As a bare minimum, the agricultural support budget must not decline in real terms during the lifetime of the RSP. This would give both the Scottish Government and the agricultural industry greater certainty and remove the need for an annual battle simply to prevent agricultural support losing value.

A Ring-fenced Agricultural Budget

Additional money will only provide genuine certainty if agricultural support is properly protected within the Scottish Government Budget.

The ARE portfolio and wider rural affairs ministerial brief contains a very broad range of competing priorities. Agriculture should not have to compete annually with those other pressures for access to a single pot of funding.

NFU Scotland is therefore seeking a separate and definitive ring-fenced agricultural support settlement within the 2027-28 Scottish Government Budget and beyond. That settlement should be:

- multi-annual
- transparent
- protected from in-year diversion (re-allocation of uncommitted or unused funds)
- subject to annual reporting
- and linked directly to the delivery of agreed agricultural policy outcomes

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This would provide farmers and crofters with the certainty they need to make long-term business and investment decisions and would provide the checks and balances to meeting the national outcomes of the Scottish Government.

Targetting Active Farming and Delivery of Outcomes

While seeking additional funding into Scottish agriculture, NFU Scotland is unequivocal in simultaneously making the case for better targeting of that support. Existing and additional financial support from the Scottish Government must be used to strengthen the elements of the new support system that deliver the greatest public value.

The Scottish Government has committed to ensuring that at least 70 per cent of funding is delivered through Tiers 1 and 2 (direct support) of the new four-tiered support system, as set out in the RSP. NFU Scotland firmly welcomes and supports that commitment.

> "In a rapidly changing world, we need to support and protect Scotland's agricultural industry, ensuring continuity of sustainable food production for generations to come.
>
> "That is why we are committed to maintaining and improving direct support, both now and in the future.
>
> "Key to this are direct payments. We are committed to ensuring at least 70% of funding is delivered this way as we develop our future support mechanisms.
>
> "We are also focusing on multi-year funding.
>
> "I know this is an ask of NFU Scotland, and I know this is an issue for the industry because of the necessity for long-term certainty to underpin investment."
>
> NFUS Annual Conference: First Minister's Speech - 6 February 2026 - gov.scot

Such a commitment ensures that the core of the agricultural support budget remains focused on active farming and crofting, food production and the delivery of enhanced environmental outcomes.

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As Tiers 1 and 2 funding will be increasingly targeted to activity and actions, additional funding therefore strengthens, rather than dilutes, the value of such payments and increasingly delivers the outcomes the Scottish Government seeks.

This is particularly important because Tier 1 provides the foundation (financial stability) upon which the rest of the agricultural support system depends. Farm businesses need sufficient underlying viability before they can be expected to make the additional investments and changes required under the higher tiers.

Value for Money

In seeking increased agricultural funding in the next Scottish Government Budget, NFU Scotland is also seeking a stronger approach to demonstrating value for money. Neither the agricultural industry nor the Scottish Government should shy away from demonstrating clearly what is being delivered from the public sector investment being made.

The Scottish Government should therefore publish an annual agricultural support delivery statement setting out

- public money invested
- number and type of active farms and crofts supported
- agricultural and allied businesses' employment
- agricultural production maintained
- the value of agricultural output
- private investment leveraged
- productivity improvements
- new entrants supported
- climate outcomes
- biodiversity and nature outcomes
- the wider economic impact across rural Scotland

This would enable the Scottish Government to demonstrate that agricultural support is not simply expenditure but investment delivering measurable economic, environmental and social returns.

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The Bigger Picture

There is also a very important political argument for the Scottish Government in investing more in Scottish agriculture. Agricultural support represents a relatively small proportion of total Scottish Government expenditure – the overall ARE budget in 2026-27 was less than 1 per cent of the overall Scottish Government Budget.

Yet Scotland's farmers and crofters are being asked to contribute to some of the Scottish Government's most important strategic priorities.

For a comparatively modest additional investment in farming and crofting support, the Scottish Government can help protect

- domestic food production and the Scottish food and drink sector
- rural employment, rural communities and the fabric of rural life
- agricultural supply chains and multiple businesses and people within them
- Scotland's natural environment and landscapes
- climate objectives
- and national resilience

The proposed £183 million increase should therefore be put in the context of the overall Scottish Budget, rather than considered in isolation.

Conclusion

The next Scottish Government Budget provides an opportunity to stengthen the relationship between the Scottish Government and Scottish agriculture.

The industry accepts that the future support system must change. It accepts that public investment must be better targeted and that farmers and crofters must demonstrate delivery against clearly defined objectives.

But there must be a corresponding recognition from the Scottish Government that ambition without adequate funding is simply an unfunded expectation.

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Scottish agriculture cannot simultaneously be the foundation of domestic food production and the food and drink sector, a driver of rural economic growth and social prosperity, the primary land manager and a key delivery partner for climate and biodiversity objectives while its public support continues to decline in real terms.

The next Budget should therefore provide a minimum £183 million uplift, establish a ring-fenced agricultural support budget, provide multi-annual certainty, and protect the real terms value of that investment through to 2030 and beyond.

This is about investing in what Scotland expects its farmers and crofters to deliver.

Scotland has set itself ambitious economic, environmental and social objectives and also significant expectations that Scotland's farmers and crofters will also do much heavy lifting to achieve those objectives. The Scottish Government now needs to invest at the level necessary to achieve them.

The next Scottish Government Budget must stop the real terms erosion of agricultural support and establish a properly funded, ring-fenced and multi-annual investment settlement for Scottish agriculture.

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