Submission

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Scottish Government 2026-27 Budget – NFU Scotland Submission

If the Scottish Government wants to secure and grow all of the economic and social benefits which farming and crofting deliver for the wider and future prosperity of Scotland, as well as achieving its ambitions relating to climate and nature, it must:

- **Significantly increase overall funding** to the Agriculture and Rural economy (ARE) portfolio.
- **Commit to multi-annual funding** for the sector over the next three financial years – given the outcome of the Spending Review in June.
- **Ring-fence support** for farming and crofting within the overall Scottish budget.
- Restate its existing commitment that at least 70 per cent of the ARE budget will be committed to direct agricultural support.
- Commit the previously announced £26 million to an improved Future Farming Investment Scheme (FFIS) and food processing and marketing capital grants (FPMC).

Delivering these asks would safeguard and build upon the significant return on investment already delivered by the sector, generate growth and employment, and continue the progress towards the climate and nature outcomes that are vital to our shared future.

Significantly, given the UK Government's Spending Review in June (SR25), the Scottish Government now has both the clear 'line of sight' and the fiscal headroom to commit to real terms increases for a multi-annual agricultural budget. The Scottish Government must do exactly that if farmers and crofters are to deliver on what they have been tasked with to deliver the Scottish Government's ambitions and objectives.

Background

Scotland's agricultural support system is changing. The Agriculture and Rural Communities (Scotland) Act 2024 paves the way for a new four-tiered support framework to deliver on the new suite of policy objectives around high-quality food production, climate, nature, and rural communities. Therefore, farming and crofting needs a fully funded support system that rewards active farming and crofting and responsible stewardship.

The Scottish Government is on record as saying that through the transition years of 2025/26 and 2026/7 to the new four-tiered structure of support, that at least least 70 per cent of the overall ARE funding would be delivered as direct support.

This was the commitment from the First Minister John Swinney MSP at our conference in February 2025. We are unequivocal in stating we need to see that commitment underlined by the allocation of ARE funding as direct support in the 2026-27 Budget.

For farm businesses, margins continue to be under significant pressure, market challenges are becoming more acute, and supply chains are often unfair. Furthermore, geo-political uncertainties and more extreme weather events have created unprecedented risks and uncertainties from which Scottish agriculture is far from immune.

Direct support payments play an important role to the majority of farms in Scotland. Some 83 per cent of all farms and crofts in Scotland made a profit in 2022-23 when direct payments (the Basic Payment Scheme, Greening, Voluntary Coupled Support schemes, and the Less Favoured Areas Support Scheme). Without these direct support payments, this proportion would decrease to 50 per cent.

The importance of direct support payments varies by farm type, with less variation in the proportion of farms and crofts that break even when supported. Direct support payments are a critical revenue stream for a significant majority of agricultural businesses – from lowland cereals growers to less favoured areas beef and sheep producers[1].These figures underscore the significance of support payments in the financial viability of different farm types in Scotland.

Continued real term erosion of direct support payments would see many agricultural businesses in Scotland cease to be viable. This would lead to significant socio-economic and environmental challenges. Ambitions in relation to high-quality food production, tackling climate change, nature restoration and thriving rural communities are reliant on investment from the Scottish Government. Without it, many farms and crofts across Scotland would cease to be viable which would lead to significant socio-economic and environmental challenges.

Furthermore, this year, the Scottish Government allocated £21.4 million to the Future Farming Investment Scheme (FFIS) and stated that £26 million will be returned to the agricultural sector in 2026-27. It is clear that the applications from this year show a growing appetite across the industry to invest in sustainability, productivity and resilience and highlights why long-term, well-funded investment schemes remain vital to the future of Scottish agriculture. We therefore urge the Scottish Government to deliver its commitment to the FFIS and further rounds of a revised food processing and marketing grant scheme in the 2026-27 Budget.

The Fiscal and Financial Context

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

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.

[1] Livestock farms are more reliant on support payments - Scottish farm business income: annual estimates 2022-2023 - gov.scot

Scottish Government's Block Grant Settlement[2] 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.

NFU Scotland's Asks of the Scottish Government's Budget

NFU Scotland calls for an increase in funding for the Agriculture and Rural Economy (ARE) portfolio. This is critical as government funding remains essential for high-quality food production, climate and nature recovery, economic growth and Scotland's rural communities. For several years now, the agricultural sector has suffered from a real-terms cut in funding. Given the importance of continued agricultural production and that farmers and crofters are being tasked to deliver more in terms of Scottish Government ambitions relating to climate and nature, this must be addressed. An increase in ARE funding would ensure the continued delivery of the significant return on investment from Scotland's agricultural support budget by generating more economic growth and employment, whilst delivering the climate and nature outcomes that are vital to all our futures.

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

The Scottish Government has given multiple assurances to Scotland's farmers and crofters that there will be no 'cliff edge' as we transition to a new support framework. Recently the Cabinet Secretary for Climate Action and Energy, stated in the Scottish Parliament that *"agriculture is the fabric of Scotland and critical to our economy."* However, these words must be backed up by effective financial underpinning of both existing and new support mechanisms and the direct support for individual agricultural businesses will be critical to the future of our sector.

The Scottish Government is on record as highlighting the need to provide sufficient financial support to the sector and we now seek clear action to deliver this. We were disappointed that in last year's budget, despite an increase to Scotland's Block Grant, funding for agriculture remained static – in other words, a real terms cut.

As the ARE portfolio's funding is now exclusively down to the Scottish Government to deliver from their budget, it is important to highlight that future ARE funding remains vital for food security and economic growth in Scotland. While the continuation of important schemes was welcomed, last year's real term reduction was a blow to the sector.

A vast array of upstream businesses rely on the spending of active farming and crofting, and a further cut, or real-terms cut would put at risk the socio-economic multipliers that are critical to wider rural prosperity across Scotland.

Support payments play a vital role to farms in Scotland. Around £680 million was allocated to agricultural support for 2025-26 in the Scottish Government Budget of December 2024. This funds crucial schemes such as Basic Payment Scheme, Greening, Less Favoured Area Support and Voluntary Coupled Support which all maintain the crucial work of farmers and crofters across the country (see above). Given rising costs, this amount is actually a real terms decline in terms of their value from the previous year. The Budget last December also confirmed the return of £46 million of uncommitted funding from previous years in the form of the Future Farming Investment Scheme in 2025-26 and 2026-27.

Our vital industry needs certainty. We therefore call on the Scottish Government to provide an increased multi-annual funding commitment in the Scottish Budget.

The Scottish Government's Draft Climate Change Plan[3] explicitly states that the UK Government: *"...fails to provide the uplift called for by stakeholders, to reverse the real terms cuts of previous years, or to provide the multi-year certainty required. We call on the UK Government to provide sufficient, ring-fenced multi-annual funding support to the agriculture sector and provide them with long-term clarity. That funding should be flexible and offer at minimum five years of certainty to allow for long-term planning."*

We are clear that it is the Scottish Government that must now deliver on its own words and commit to exactly what it is calling for from the UK Government for our farmers and crofters in this forthcoming Scottish Government Budget.

As a result, NFU Scotland is calling on the Scottish Government to deliver the following funding profile in the ARE portfolio for the key elements of current support that will, over time, develop into the new Tiers 1, 2, 3 and 4 of future support. This means an uplift in all the relevant budget lines below over a three-year period.

Support Scheme	Current Budgets	2026-27	2027-28	2028-29
Basic Payment Scheme	£282 million	£310 million	£325 million	£342 million
Greening	£142 million	£156 million	£164 million	£172 million
Voluntary Coupled Support	£47.7 million	£53 million	£56 million	£59 million
Less Favoured Areas support	£65.5 million	£72 million	£76 million	£80 million
Fruit and Vegetables Aid Scheme	£3 million	£4 million	£5 million	£ 6 million
Crofting Support	£5.6 million	£6 million	£6.5 million	£7 million
Agri-Environment	£28.6 million	£40 million	£45 million	£50 million
Future Farming Investment Scheme	£21.4 million	£30 million	£35 million	£40 million

[3] Annex 2 – Sectoral Annexes - Scotland's Climate Change Plan – 2026-2040 - gov.scot

Food Processing, Marketing and Co-operation	n/a	£10 million	£12.5 million	£15 million
Knowledge Transfer and Innovation Fund	£1.4 million	£2 million	£3 million	£3 million
Farm Advisory Service	£6.5 million	£8 million	£10 million	£10 million

Conclusion

While NFU Scotland recognises the significant pressures on the overall Scottish Budget, we strongly urge the Scottish Government to demonstrate its commitment to agriculture and provide adequate funding to this vital sector.

Any reduction in the ARE portfolio budget would have far-reaching negative consequences. Not just for the businesses themselves but it would undermine food security, environmental and nature recovery goals, economic activity and growth.

If the Scottish Government is serious about securing high-quality food production, and with it, the upstream and downstream socio-economic benefits that are vital to rural prosperity across Scotland and the wider UK, the ARE budget must be increased in both real and nominal terms.

To deliver certainty and confidence in the sector, this needs to be accompanied by a multi-annual, ring-fenced funding commitment to give farmers and crofters their own 'line of sight' for the future.

An increase would safeguard the substantial return on investment already delivered by the sector, stimulate further growth and employment (particularly in areas with limited alternative opportunities), and accelerate progress towards the climate and nature outcomes that are important Scottish Government ambitions.

There is a public interest in sustainable food production, tackling climate change, enhancing biodiversity, and supporting vibrant rural communities and it cannot be overstated. The Scottish Government's 2026-27 Budget must deliver additional investment for the sector. Scotland's farmers and crofters are ready to deliver but they cannot do so without the right financial backing, which is now the sole responsibility of the Scottish Government.

Annex A - Why the Scottish Government must increase agricultural funding to deliver its policy goals

This Annex outlines the case for increased Scottish Government funding for agricultural support, enabling farmers and crofters to deliver on national policy objectives for high-quality food production, climate action, nature restoration, and rural community resilience.

Scotland's agriculture and crofting sectors are central to the nation's identity, economy, and environment.

Amongst an array of policy intentions, the Scottish Government has set ambitious goals through its Vision for Agriculture, the Agriculture and Rural Communities (Scotland) Act 2024, the draft Rural Support Plan 2026-2030, the Climate Change Plan 2026-2040, and Scottish Biodiversity Strategy.

Achieving these aims will require significant investment in how land is managed, food is produced, and natural capital is managed.

However, current levels of agricultural support are insufficient to fund the transition expected of the agricultural sector. Without increased and well-targeted investment, Scotland risks falling short of its own policy commitments.

Securing High-Quality, Sustainable Food Production

Food security and resilience: Recent global supply disruptions highlight the importance of a robust domestic food system. Increased funding ensures Scotland can continue producing nutritious, high-quality food while reducing reliance on imports.

Maintaining standards: Farmers and crofters already deliver produce of exceptional provenance and welfare standards. Rising input costs threaten these gains without sustained financial support.

Innovation and productivity: Targeted investment enables the adoption of precision technologies, improved efficiency, and reduced environmental impact - delivering more from less.

Tackling Climate Change

Enabling the net-zero transition: Meeting the 2045 net-zero target requires farmers and crofters to invest in renewable energy, low-emission practices, decarbonising, and sustainable livestock systems. These transitions carry upfront costs that must be publicly supported.

Carbon storage and sequestration: Agriculture can deliver large-scale carbon capture through healthy soils, peatland restoration, farm woodlands, agroforestry, and grassland management. Incentivising these practices yields national climate benefits.

Climate resilience: Increased support helps farmers and crofters adapt to more variable weather, protecting long-term productivity and food supply.

Restoring Nature and Biodiversity

Rewarding public goods: Farmers and crofters manage over 70 per cent of Scotland's land, much of which provides vital environmental services - clean water, fertile soils, wildlife and habitats, and landscape diversity. Public funding is essential to reward these non-market outcomes.

Delivering biodiversity recovery: Adequate funding for agri-environment management can restore and enhance nature and help meet Scotland's biodiversity and environmental targets.

Integrated land management: A well-funded approach supports joined-up management at a landscape or catchment scale - ensuring greater environmental gains and better value for money.

Supporting Rural Communities and Economies

Economic vitality: Agriculture underpins rural jobs and businesses, supply chains, and local infrastructure and services. Sustained investment prevents depopulation and economic decline in fragile and remote rural areas.

Social and cultural value: Farming and crofting are the backbone of Scotland's rural culture. Funding supports generational renewal, skills development, and community-led innovation.

Inclusive transition: Ensuring small farms and crofts can access support maintains fairness and avoids leaving communities behind as environmental and market changes accelerate.

Aligning Resources with Policy Ambition

The Scottish Government intends to be world-leading in its environmental and agricultural ambitions, but ambition must be matched by adequate resourcing. Investment in agriculture should be viewed as:

- A strategic economic investment
- A means to deliver public goods and national policy outcomes
- A tool for just transition, ensuring fairness and resilience across rural areas

Increasing agricultural funding is essential to realise the Scottish Government's vision for a productive, sustainable, and fair rural economy. Farmers and crofters stand ready to deliver for Scotland - but they require sufficient, stable, and long-term support to do so.

Investing in agriculture is investing in Scotland's future: its food, its environment, and its people.