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To : Rural Economy and Connectivity Committee
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IMPLICATIONS OF COVID-19 FOR THE SCOTTISH BUDGET – RURAL ECONOMY

Introduction and Context

1. NFU Scotland (NFUS) believes that lessons are already being learned from the circumstances of COVID-19, but that recovery is likely to take many years. Scottish agriculture and the wider rural economy will have to change and adapt to a new operating environment which will not be 'business as usual'. This will be very challenging for the agricultural sector, as markets and supply chains have to adapt to survive and thrive, and agricultural support is realigned in light of tighter financial constraints and amended policy goals.
2. Climate change remains a critically important issue for Scottish agriculture, and as a major land use in Scotland, it is clear agriculture has a role to play in Scotland's 'green recovery' from COVID-19. Scottish farmers and crofters remain committed to producing high quality food in an environmentally and climate-friendly manner. NFUS recognises that the wider economy's emergence from COVID-19 will require Scottish agriculture to do more to meet these ambitions.
3. Scottish agriculture epitomises the Rural Economy portfolio of the Scottish Government's budget – both share a range of responsibilities which contribute to the economic well-being of rural Scotland by working directly and indirectly to deliver food production, animal health and welfare, food and drink, crofting, climate ambitions, biodiversity targets, diversified land use, and rural enterprise.

4. The challenges faced by Scottish agriculture to deliver in Scotland's interests will also be significantly impacted by the UK leaving the EU and minimising and addressing those impacts on Scottish agriculture and all that it underpins – as well as its potential to drive post-COVID-19 recovery.
5. It is critical that the Scottish Government's 2021-22 budget targets investment in agricultural businesses through effective and new policy measures to ensure the best possible chance of the attaining key Scottish Government National Outcomes, namely: economy; communities; education; business; environment; health, culture; and international. Scottish agriculture can make a significant and lasting contribution to each of these National Outcomes – if given the right levels of investment and support targeted through a new approach to agricultural and rural development policy in the post-Common Agricultural Policy (CAP) era.
6. NFUS believes there is significant opportunity for the sector within post-COVID recovery and beyond Brexit. NFUS's primary goal within the longer-term economic recovery is to secure a profitable and sustainable agricultural industry.

In light of the impact of COVID-19 on the rural economy, how can future budgets best be deployed to develop resilient rural businesses, communities and supply chains?

7. The role of agriculture and the range of economic, environmental and social benefits varies across Scotland's landscape, but with the right levels of public investment targeted through effective measures Scottish agriculture can:
 - Produce high quality food and products that its customers want;
 - Embrace change to enhance productivity and create new market opportunities and jobs;
 - Lead the delivery of biodiversity, climate ambitions and a flourishing environment;

- Drive sustainable growth and diverse rural development to help rural economies prosper and communities thrive.
8. In order to do this, NFUS is clear that future budgets must underpin a bold new agricultural policy which fully integrates land use and economic activity, by providing fiscal incentives for land-based businesses to enable productivity growth within the sector. NFUS' detailed proposals for a future agricultural policy, which it suggests should be implemented following the Stability and Simplicity period from 2024 onwards, are set out in its document 'Steps to Change – A New Agricultural Policy for Scotland'¹.
9. Leaving the CAP gives each of the devolved administrations of the UK more flexibility to decide how money should be used to support the individual needs of their farming sectors in the future. Agriculture is the cornerstone of vibrant rural economies, and alongside an agricultural policy that assists Scotland's agricultural productivity, the wider rural and food and drink sectors must also be encouraged to grow sustainably and build resilience by future budgets. NFUS believes that future budgets must be deployed to build supply chain, business and human resilience via:
- Increased investment in processing capacity and adding value
 - Investment in on-farm climate change adaptation, mitigation and natural capital
 - Improved digital connectivity
 - Creation of export opportunities in the food and drinks sectors
 - Diversified and expanded domestic market opportunities for Scottish produce – via public procurement and local sourcing
 - Removal of planning barriers via a presumption in favour of rural development, with more permitted development rights, to create diversification opportunities
 - Greater support for horizontal and vertical integration via collaboration and cooperation initiatives throughout the agri-food supply chain

¹ NFU Scotland, *Steps to Change: A New Agricultural Policy for Scotland*, 2018: <https://www.nfus.org.uk/userfiles/images/Policy/Brexit/STEPS%20FOR%20CHANGE%20March%202018%20-%20for%20email.pdf>

- Investment in people through provision of skills development and education in the land-based sector, with assistance available for rural and agricultural employers to offer apprenticeships, work placements and job opportunities – as per the recommendation of the Climate Emergency Response Group².

Is Brexit likely to pose additional challenges for the rural economy in recovering from the impacts of COVID-19 and how should funding best be allocated to support recovery of the rural economy in this context?

10. Agricultural policy is already a devolved matter, given the differing CAP packages that operate within common regulatory frameworks across the UK. It is just as important that future funding of agricultural support is a UK commitment, but its delivery is a devolved decision based on the differing needs and objectives across the UK. Therefore, NFUS believes that HM Treasury should finance the new agricultural policy on a UK-wide multi-annual funding framework, but with the devolved administrations given the policy tools and levers to ensure the agricultural policy works for all four parts of the UK. UK Government must also ensure that future funding allocations to the devolved administrations for agriculture are fair.
11. The current uncertainty surrounding the UK leaving the EU means it is impossible to definitively predict what the future UK funding landscape might look like. That situation has been hugely compounded by the COVID-19 crisis. Prior to COVID-19, the UK Government has made a guarantee in relation to direct agricultural support funding for the 2020 scheme year.
12. The Withdrawal Agreement Act does not allow the UK to continue to participate in schemes covered by EC 1307/2013 (the EU's CAP Pillar 1 regulations) as 2020 direct support payments are funded by the 2021 EU budget. The UK Treasury announcement of December 2019 relates to BPS claim year 2020 and confirmed the commitment to maintain that funding from domestic (UK) resources.

² Climate Emergency Response Group, 2020:
https://energysavingtrust.org.uk/sites/default/files/CERG_Green%20Recovery_FINAL_13July.pdf

13. Separately, there is a UK Government commitment to maintaining the same cash total in funds for “farm support” for the next five years (or the lifetime of the current Parliament). Clarity is required about how this will be calculated and allocated to Scotland (given the Bew Review on intra-UK allocations) and whether it will apply to the current CAP schemes as they rollover via new legislation in the Agriculture (EU Retained Law and Data) (Scotland) Bill to 2024. Clarity is also required as to whether “farm support” covers all current CAP schemes going forward, particularly those non-farming elements of Pillar 2 (Scottish Rural Development Programme) schemes such as LEADER, forestry and food and drink.
14. NFUS is adamant that the current levels of public investment in agriculture should be at least maintained. The UK Government should commit to a multi-annual budgetary framework that provides certainty for Scotland’s farmers and crofters by allowing them to plan and invest for the future. Budgetary cycles should be independent of the parliamentary cycle to reflect the need for long term planning and investment and to avoid the agricultural budget becoming politicised and subject to annual discretionary spending decisions.
15. Equally, the Scottish Government must guarantee that agricultural and rural development funding from the UK Government is ring-fenced for such purposes, albeit targeted and delivered in more effective ways than the current CAP measures. NFUS has proposed that a multi-annual (five-year), ring-fenced financial framework be established in Scotland with at least the same quantum of funding as now.

What are the implications for the Scottish budget related to these policy areas of the Scottish Government’s stated intention to ensure a “green recovery” and to build a “wellbeing economy” after the COVID-19 crisis? Are lessons learned during the pandemic likely to lead to major shifts in future Scottish Government spending in these areas and, if so, what should these shifts look like?

16. Protecting the environment and responding to climate change remain critically important issues for Scottish agriculture and as a major land use in Scotland, the sector has a key role to play in the green recovery. NFUS agrees that using climate investments to support economic recovery and jobs will be vital in supporting a green recovery, and NFUS has lent its support to the detailed policy proposals put forward by the Climate Emergency Response Group.
17. Agriculture has enormous potential to deliver for both Scotland's economy and environment, but this potential is currently constrained by several political, physical, and financial barriers. NFUS is aware that rural areas were identified by the Just Transition Commission as 'hot spots' requiring particular attention during the green recovery³, but also notes analysis undertaken which highlights that rural communities may be more exposed to experiencing long-term economic impacts as a result of COVID-19 and measures put in place to control the spread of the virus⁴. Given that agricultural businesses are essential for providing employment in the many rural, remote and island communities in which farmers and crofters live and work, they should be clearly included in any budgetary stimuli for a green recovery. Agriculture is the third largest employer in rural Scotland. The sector directly employs around 67,000 people, which equates to around 8 per cent of the rural workforce⁵. Failing to acknowledge the critical role agriculture plays in the rural economy could create a barrier to the involvement of the sector in the green recovery.
18. NFUS recognises that there is a need for urgency in addressing agriculture's contribution to climate change but firmly believes that the sector must be given the opportunity to remain competitive and resilient. NFUS would be concerned if future policies levied increased regulatory and cost burdens on agricultural businesses without increasing their productivity and profitability. Such measures would only create further barriers for Scotland's farmers, crofters, and growers

³Just Transition Commission, *Advice for a Green Recovery*, <https://www.gov.scot/publications/transition-commission-advice-green-recovery/>

⁴ Fraser of Allander Institute, *Regional Impacts of the Coronavirus Pandemic*, <https://fraserofallander.org/covid/regional-impacts-of-the-coronavirus-pandemic/>

⁵ Scottish Government, *Agricultural Census 2019*, <https://www.gov.scot/binaries/content/documents/govscot/publications/statistics/2019/10/final-results-june-2019-agricultural-census/documents/june-agricultural-census-2019/june-agricultural-census-2019/govscot%3Adocument/june-agricultural-census-2019.pdf>

in adapting to climate change against an already-challenging financial backdrop. Agricultural businesses within Scotland were estimated to make a loss of around £9,000 in 2018 - 2019⁶. Operating in such circumstances has been reported to limit optimism, investment, innovation, and employment opportunities⁷ and it is therefore essential that no unnecessary financial burden is placed on farm businesses because of rapid changes required.

19. Therefore, to be achievable, measures introduced to promote a green recovery must avoid undermining other policy goals, including Ambition 2030⁸. Policy makers should acknowledge the range of goals that are currently set for the agriculture sector, which could act as a perceived barrier or complicate pathways to achieving results both on-farm and industry-wide.
20. The lack of clarity around future agricultural policy and support mechanisms could be perceived as a barrier to a sustainable green recovery. If farm businesses are to successfully plan for and then implement measures to mitigate greenhouse gas emissions and enhance the environment, clearer signals are needed from policy makers. There is a great deal that the industry can do to reduce emissions if government, industry, and other stakeholders continue to work constructively and collaboratively to improve performance.
21. Environmental benefit and delivery form a central plank of NFUS' vision for a new Scottish agricultural policy in 'Steps to Change', alongside measures to improve productivity and financial stability. In its interim policy document for 2021 – 2024, 'Stability – The Platform for Change'⁹, NFU Scotland outlines that these steps must be taken from 2021 to enable Scottish agriculture's transition to lower emissions.

⁶ Scottish Government, *Farm Business Survey 2018 – 2019*, <https://www.gov.scot/publications/farm-business-survey-2018-19-profitability-scottish-farming/pages/3/>

⁷ NFU Scotland, *Brexit Survey Shows Ongoing Uncertainty is Eroding Confidence Levels in Scottish Agriculture*, <https://www.nfus.org.uk/news/news/brexit-survey-shows-ongoing-uncertainty-is-eroding-confidence-levels-in-scottish-agriculture>

⁸ Ambition 2030: *A Growth Strategy for Farming, Fishing, Food and Drink, The Scottish Food and Drink Partnership*, <http://www.foodanddrink.scot/media/78130/strategy-brochure-smaller-size.pdf?Action=download>

⁹ NFU Scotland, *Stability: A Platform for Change*, 2020: <https://www.nfus.org.uk/userfiles/images/Policy/Stability.pdf>

22. It is critical that measures and schemes to promote a green recovery reflect the profile of Scottish agriculture and are developed to ensure the sector can achieve the policy objectives sought from farming and crofting. Future policy development must also recognise that food production involves emissions and that these cannot be reduced to zero while maintaining a productive agricultural sector. Although agriculture will remain an emitting sector of the economy, it will still make a strong contribution towards a green recovery.

23. NFUS has welcomed the Scottish Government's commitment in its 2019-20 and 2020-21 legislative statements to fund an Agricultural Transformation Programme (ATP) – recognising that the Climate Change (Emissions Reduction Targets) (Scotland) Act 2019 sets out a requirement to have an agricultural modernisation fund to support investment in mitigation measures that reduce greenhouse gas emissions on Scottish farms. NFUS has also welcomed the £40 million allocation in the Scottish Budget of February 2020 to the ATP. The ATP must deliver support for key actions to achieve this. However, NFUS considers that somewhere in the order of £100 million per year must be made available if the ATP is to have an effective impact in influencing best practice across the board in Scottish agriculture, and making a meaningful contribution to the green recovery.

24. As such, NFUS has welcomed¹⁰ the recent commitment of £10 million for the Scottish Government's Sustainable Agriculture Capital Grant Scheme (SACGS), which will assist farmers and crofters with grants towards expenditure on capital items. NFUS regards this sort of assistance as key in supporting Scottish agriculture in its positive response to the climate emergency and drive forward a green recovery from COVID-19.

25. However, NFUS is equally clear that this initial funding commitment of £10 million must be substantially built upon going forward in order to accelerate positive progress in this regard. Targeted support must be available beyond this

¹⁰ NFU Scotland, *New Scheme Will Support Farming Response to Climate Emergency and Drive Efficiency*, <https://www.nfus.org.uk/news/news/new-scheme-will-support-farming-response-to-climate-emergency-and-drive-efficiency>

initial spending round that is widely accessible to all agricultural sectors and provides a variety of options to suit different business types if we are to truly drive a step change on farms and crofts. NFUS would support a much larger scheme to follow this pilot with more options that will allow every farm and croft to access measures appropriate to their business.

26. NFUS also asks the Rural Economy and Connectivity Committee to query the Scottish Government on its proposals for measures for the rest of the £40 million fund earmarked for the ATP. NFUS understands that £11 million of the budget has been committed to fund for the SACGS, as well as a £1 million uplift for agri-forestry. NFUS queries how, and indeed when, the industry may be engaged in the utilisation of the remaining £29 million earmarked for the fund.
27. Looking ahead, it is the view of NFUS that funding for on-farm climate mitigation measures should not be derived from existing CAP budgets – either through an increased Pillar 1 to Pillar 2 transfer or the capping and recycling of direct support to individual businesses. NFUS believes that this should be additional funding from Scottish Government resources – otherwise such a significant shift in existing agricultural funding allocations could be highly destabilising in what is likely to be a very turbulent period for Scottish farming and crofting – an outcome which could erode the benefits that active farming and crofting deliver.
28. The independent Intra-UK Allocations Review (the Bew Review) provided recommendations on how the so-called ‘convergence’ component of the farm support budget could be divided fairly to the devolved administrations for the period 2020 to 2022. The UK Government accepted the majority of the recommendations made by the independent Bew Review. This means that Scotland will receive an additional €60.43 million over the 2020 to 2022 period. Using the historic exchange rate at which convergence payments have been made available in the UK (£1 = €1.1757) this equates to £51.4 million.
29. The UK Treasury has confirmed that this £51.4 million is being provided in the 2020-21 and 2021-22 financial years and is ring-fenced for farmers and land managers, so the Scottish Government has flexibility as to how it could be used.

NFUS has proposed that the Bew Review funding be used to help support the pilots that Scottish Government intend to run in the 2021 to 2024 period. Moreover, a proportion of the funding should also be used in promotion and marketing of Scottish agricultural produce in existing and emerging markets.

30. In addition to the additional funding which will come to Scotland as an outcome of the Bew Review, the agricultural sector in Scotland has also been supported by a significant cash injection of £160 million, delivered via the UK Treasury to redress the historic, so-called convergence uplift. NFUS understands that in the 2019-20 financial year, NFUS delivered £90 million of this uplift as a direct cash injection to eligible agricultural businesses and a 'second tranche' of £70 million is anticipated in the 2020-21 financial year. NFUS asks the Rural Economy and Connectivity Committee to query the Scottish Government to be clear about how it intends to distribute this funding, and for what intent this funding will be utilised. Clarity as to what use and purpose this second tranche of funding will provide Scottish agricultural businesses is vital.