



# LESS FAVOURED AREAS – DELIVERING FOR SCOTLAND



NFU Scotland's Proposals to Secure the Multiple Benefits from  
Active Farming and Crofting Across Scotland's  
Challenging Landscapes

## Executive Summary

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The physical realities of farming and crofting in Scotland have led to much of the landscape being defined as less favoured areas (LFA). The LFA designation was established as a means to provide support to disadvantaged agricultural areas – including crofting.

The capability of Scottish agriculture is limited by climate, topography and soils, with the result that Scottish agriculture is dominated by grassland and much of this is of low quality. These permanent disadvantages mean that around 86 per cent of Scottish agricultural land, and over 60 per cent of agricultural holdings, has LFA status.

Yet the value of active farming and crofting across Scotland's vast and varied LFA cannot be overstated. Not only is LFA agriculture the backbone of Scotland's sustainable red meat industry but is also critical to a variety of environmental and social benefits in the public interest, including indirect local jobs and incomes generating economic multipliers, flourishing habitats and biodiversity, carbon sequestration and storage, thriving communities and cultural heritage.

The Covid-19 pandemic has demonstrated the intrinsic value of communities and food security. Agricultural activity in Scotland's LFA has underlined the resilience of remoter communities as well as contributing to Scotland's overall food security and a pathway to recovery.

On the one hand, active farming and crofting in the LFA provide for an array of public goods from which, by definition, it is impossible to derive a financial or market return – yet is equally impossible to quantify.



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On the other, very few LFA livestock farms and crofts are profitable without support payments - mainly due to the additional constraints of land type and the additional costs of remoteness. As a result, LFA farm types remain heavily dependent on support payments.

The Less Favoured Areas Support Scheme (LFASS), the Scottish Suckler Beef Support Scheme (SSBSS) and the Scottish Upland Sheep Support Scheme (SUSSS) all provide a vital injection of funding to LFA farmers and crofters, in addition to the mainstay of support via the Basic Payment Scheme (BPS) and Greening.

NFU Scotland, led by its LFA Committee, is clear that to safeguard and enhance the significant contribution of active farming and crofting in the LFA in the short to medium term the Scottish Government must act with urgency to

- Reinstate LFASS 2020 payments made in Spring 2021 to 100 per cent of 2018 payments
- Retain LFASS from 2021 with a £65 million budget and rebased to better reflect current activity
- Retain SUSSS with the added safeguard on the number of ewe hoggs claimed limited to 20 per cent of the ewe flock to ensure better targeting to those most reliant on Region 3 land.

Only by securing and targeting vital support in the short to medium term will active farming and crofting be properly underpinned to enable the continued delivery of the many valued outcomes it provides - and to deliver for all of Scotland.



## Introduction

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NFU Scotland is clear that Scotland's LFA is significantly important to Scottish agriculture given the scale of poorer quality land that needs additional support to promote the viability of (predominantly) extensive livestock systems.

In 2018, some 86 per cent of the total agricultural land area in Scotland was designated as LFA. The large area of LFA land in Scotland limits the expansion potential of more profitable farm types. While the uplands are ideal for low intensity grazing of sheep and cattle, these tend to be less profitable types of farming and have the least capacity to improve or change to more profitable production systems.

Yet, extensive grazing systems are not only the backbone of Scotland's sustainable red meat industry, but also contribute a variety of environmental and social benefits in the public interest. Active farming and crofting in the LFA underpins an array of public goods from which, by definition, it is impossible to derive a financial or market return.

As a result, LFA farm types remain dependent on support payments. Few LFA livestock farms are profitable without support payments (less than 10 per cent) mainly due to the significant constraints of land type and the additional costs of remoteness. LFA livestock farms are the least profitable farm type in Scotland and receive high average support payments which allow them to provide rural opportunities and public goods.

The Less Favoured Areas Support Scheme (LFASS), the Scottish Suckler Beef Support Scheme (SSBSS) and the Scottish Upland Sheep Support Scheme (SUSSS) all provide a vital injection of funding to LFA farmers and crofters, in addition to the mainstay of support via the Basic Payment Scheme (BPS) and Greening.



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Without such support to the most agriculturally challenged areas of Scotland, many hill farms and crofts would be unsustainable which could lead to much wider ramifications - including agricultural land abandonment (already seen in some locations) and its associated adverse impacts on habitats, biodiversity, landscapes, local economies and rural communities and all the essential associated jobs serving them.

Scotland's hill farmers and crofters will continue to face an increasingly challenging and uncertain future, not only in the wake of the UK's departure from the EU but also given the very marginal nature of what they do - both physically and financially. There remains a very real threat to LFA farms and crofts without the certainty of vital funding streams to those in the most disadvantaged of areas.

Given the very real risks facing Scotland's LFA, NFU Scotland is determined to secure and target continued support for active farmers and crofters - despite this being also a time of significant risk to existing policy measures and their budgets.

In this LFA-focused policy document, NFU Scotland sets out the importance of active farming and crofting in Scotland's LFA in terms of what it delivers - directly and indirectly, for the market and as public goods. In addition, NFU Scotland makes the case for continued and refined support for active farming and crofting across the LFA to maintain and enhance all that it delivers.

Without such support, losses would not simply equate to livestock numbers and the metrics of production. The impacts of agricultural land abandonment in such areas would also have severe implications for people and places - starkly illustrated by the erosion of communities and culture and the loss of habitats, biodiversity and opportunity to address climate goals.



## What is Scotland's LFA?

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In recognition of the different physical and socio-economic characteristics across the regions, the European Union introduced the LFA designation to support farming where production conditions are difficult. The criteria for LFA designation were first established in European legislation in 1975.

Scotland's LFAs are defined by: i) The presence of poor land of poor productivity, which is difficult to cultivate and with a limited potential which cannot be increased except at excessive cost, and which is mainly suitable for extensive livestock farming; ii) lower than average production, compared to the main indices of economic performance in agriculture, and; iii) a low or dwindling population predominantly dependent on agricultural activity, the accelerated decline of which could cause rural depopulation.

The LFA designation was established as a means to provide support to disadvantaged agricultural areas – including crofting. The LFA in Scotland is subdivided into two areas – the more challenging areas within the LFA are classed as 'Severely Disadvantaged Areas' (SDA). The remainder is classified as 'Disadvantaged Areas' (DA).

About three-quarters of the total land area in the UK is classed as agricultural, amounting to some 18.5 million hectares, of which approximately one-third lies in Scotland.

However, the capability of Scottish farming is severely limited by climate, topography and soils, with the result that only about 11 per cent of farmland in Scotland is cropped. Scottish agriculture is therefore dominated by grassland, but much of this is of low quality with about three-quarters (almost three million hectares) being categorised as rough grazing.

**LFA farms and crofts  
are home to  
345,000  
suckler cows -  
83 per cent of the  
Scottish herd**

These permanent disadvantages are officially recognised to the extent that around 86 per cent of Scottish agricultural land (and over 60 per cent of agricultural holdings) has LFA status. Of this, 98 per cent is classified as SDA with the balance being classed as DA. This contrasts with England, where only 17 per cent of the total farmed area is classified LFA.

There are more than 5 million hectares of land located within Scotland's LFA, where almost all of Scotland's rough grazing (99 per cent) and woodland (87 per cent) can be found. In addition, almost 80 per cent of improved grassland can be found in Scotland's LFA.

While agriculturally challenged, it has long been recognised that agricultural activity underpins a host of important market and non-market benefits and can be critical to the prosperity of rural economies, the vibrancy of ecosystems and the vitality of rural communities.

## What Does Scotland's LFA Deliver?

Livestock farming has traditionally formed the backbone of local economies and communities across Scotland. The landscape and biodiversity associated with livestock farming depends on viable livestock units and, in particular, grazing management. However, the value of extensive production systems, and their products, is generally not sufficiently rewarded by the market to render them economically viable without financial support.

Active farming and crofting, and all that is associated with it, is in danger of disappearing if there is not sufficient support to bridge the gap between market returns and costs of production. Farmers in hill and upland areas, as elsewhere, must be rewarded for the public goods and ecosystem services they provide if they are to be secured in future.

Over  
**11,000**  
agricultural  
businesses receive  
LFASS payments

The historic budget  
for LFASS is

**£65 million,**

but supports an  
industry  
worth more than

**£1 billion**

to the  
Scottish economy

Some suggest this can be done through existing elements of current agri-environment schemes, notably the Agri-Environment Climate Scheme (AECS). While agri-environment measures do have a role, they are not the answer. This is because payments in these schemes are based only on additional costs and income foregone and on such a basis they are insufficient to support the farming systems that produce these goods and services.

For livestock farmers and crofters to continue to be in a position to deliver wider, non-market benefits, their core business must be financially viable. Market returns alone are insufficient to enable the ongoing delivery of the many benefits derived from active farming and crofting.

### Delivering for Scotland's Economy, its Local Economies and its Communities

Farming and crofting in the LFA are the mainstay of Scotland's red meat sector, providing the highest quality breeding and finished livestock via extensive grass-based systems.

However, loss of agricultural activity in the LFA is having a significant impact on the already fragile economy of much of rural Scotland. In addition, the loss of the less tangible environmental and social co-products associated with farming and crofting would be detrimental to other sectors of the rural economy and wider social interests.

Extensive but active livestock systems in Scotland's uplands and remoter areas are critical in helping support a wide range of businesses and services, including local retailers and farmers markets, livestock marts, abattoirs, meat processors, vets, hauliers, animal feed suppliers and agricultural input suppliers.

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Livestock farming plays a pivotal role in the local economy of much of rural Scotland. The true multiplier effect of farming and crofting in such areas, where no comparable user of inputs and generator of outputs exists, cannot be over-estimated. The economic prosperity of much of Scotland's LFA will continue to rely directly and indirectly on the viability of active farming and crofting on more disadvantaged land in often remoter locations.



In addition, rural tourism opportunities provided throughout Scotland's LFA are hugely significant for the Scottish economy as a whole and local communities in particular. Yet, this tourism and recreational activity is highly dependent on the open, grazed landscape created by the upland farming systems. It is highly unlikely that these benefits would continue as now without farming and crofting because it is the livestock management that produces and maintains the landscape, largely through grazing.

Farming and crofting in the LFA also plays a vital role in many rural communities and their cultural identity - either directly, through employment, or indirectly, through the way that farm businesses are linked to other businesses in an area. Changes in agricultural production, especially in remoter LFA areas - where agriculture plays a more prominent role in the economy - can have significant implications for local communities.

The patchwork of Scotland's LFA farms and crofts typify a cultural landscape - managed environments that support vital habitats and their fauna as well as sustaining jobs and incomes to the benefit of rural economies and local communities.

In addition, thriving LFA communities require the skills, knowledge and experience of the people that are responsible for and passionate about hill farming and crofting. Culturally, farming and crofting play a fundamental role in the life of communities across the LFA, not least through a strong link between individual farming and crofting families, their connection to the land and their way of life.



The strong sense of community, the specialised system of hefted flocks, and the high nature value of these areas produces a range of direct and indirect benefit for all. Livestock farming ensures that numerous Scheduled Ancient Monuments and other landscape features, such as dry stone dykes and vernacular buildings, are positively managed through active use and would benefit from additional targeted support. Much of the LFA is highly valued by those who work and visit such areas that also help define the cultural identity of Scotland.

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## Delivering for Scotland's Environment and Climate Change

Around half of Scotland's land area is considered upland and includes moorlands, peatlands and semi-natural grasslands. This land is all within Scotland's LFA and provides several important ecosystem services which include carbon storage, water quality regulation, flood mitigation, biodiversity conservation, and recreation – all in addition being the foundation of Scotland's vitally important red meat sector.

Rough grazing for sheep and cattle makes up some 59 per cent of Scottish agricultural land, all of which is in the Scotland's LFA.

The reduced grazing pressure of extensive, low stocking density systems across much of Scotland's LFA, often complemented by away wintering of livestock thereby restricting the length of time animals graze any particular area, can have a net positive effect on carbon

Whilst overgrazing once caused habitat damage leading to biodiversity loss, today under grazing equally poses a threat to biodiversity through rank vegetation and a much increased risk of wildfire that could inadvertently release vast quantities of stored carbon.

Balanced and managed grazing by livestock across much of Scotland's LFA has a key role to play in helping to store carbon whilst maintaining habitats and biodiversity. Extensive grazing systems, founded on the natural carrying capacity of the land, maintain the balance that enables continued carbon storage whilst reducing the risks of carbon loss.

Scotland's LFA also plays a vital role in water resources and flood risk management, with the vast majority of drinking water coming from upland catchments. The careful management of upland drainage networks and balanced grazing to maintain vegetation cover can maintain stable

The LFA is home to almost  
**60 per cent** of UK  
peatland

Scottish peatland is  
comprises **4 per cent**  
of Europe's total peat  
carbon store<sup>1</sup>

Peatlands in the LFA are  
estimated to store  
**1,620 million**  
**tonnes** of carbon<sup>2</sup>

Scottish peatlands store  
**20 times** as much  
carbon as the UK's forest  
biomass<sup>3</sup>

Managed permanent and  
rough grazing in Scotland  
hold approximately  
**172 million tonnes**  
of carbon<sup>4</sup>

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<sup>1</sup> SPICe, Peatlands and Climate Change, [http://www.parliament.scot/ResearchBriefingsAndFactsheets/S4/SB\\_12-28.pdf](http://www.parliament.scot/ResearchBriefingsAndFactsheets/S4/SB_12-28.pdf)

<sup>2</sup> SPICe, Peatlands and Climate Change, [http://www.parliament.scot/ResearchBriefingsAndFactsheets/S4/SB\\_12-28.pdf](http://www.parliament.scot/ResearchBriefingsAndFactsheets/S4/SB_12-28.pdf)

<sup>3</sup> IUCN, [http://www.iucn-ukpeatlandprogramme.org/sites/all/files/091201BriefingPeatlands\\_andClimateChange.pdf](http://www.iucn-ukpeatlandprogramme.org/sites/all/files/091201BriefingPeatlands_andClimateChange.pdf)

<sup>4</sup> NFU Scotland and SEFARI Grassland factsheet <https://www.nfus.org.uk/userfiles/images/Policy/ELU/0620%20Grassland%20Factsheet.pdf>



watertable levels that are practical for agricultural land use, whilst providing water storage capacity for extreme weather events and reducing the peak flow of run-off .

As a result, upland LFA catchments, and their management, help mitigate against flood risk – with such natural flood risk management being a more cost-effective approach than hard engineering further downstream.

The maintenance and enhancement of the rich and varied biodiversity associated with huge expanses of Scotland continue to depend on more extensive sheep and beef units, and their grazing management in particular. However, such activity and the support payments associated with them often require additional agri-environmental management. For example, from 2015 to 2019, some 999,138 hectares of LFA land were under upland, peatland, moorland or heath management agreements under the Agri-Environment Climate Scheme (AECS).

Around 40 per cent of Scotland's agricultural land is extensive and classed as of 'High Nature Value' (HNV) farmland<sup>5</sup> . This is where traditional farming and crofting methods – primarily livestock production – have created a rich diversity of wildlife habitats thereby creating a home to corn crakes, corn bunting, flag iris, great yellow bumblebees and marsh fritillary butterflies, to name just a few.

Farmland everywhere in Scotland can be managed to create space for wildlife but it is in the HNV farmland in the LFA where agricultural practices are in greatest harmony with nature and the balance between food production and the environment most closely achieved. Maintaining this delicate balance offers the best hope of securing the future not just for wildlife but also for the people and communities that live there.



Against a background of declining livestock activity in many locations such areas will, and in some places have, revert to more and more extensive land use with declining management inputs, most notably working capital and labour.

This may prove to be an economically rational decision, but it is unlikely to yield a comparable level of environmental benefits as current or traditional practices do. The declines in LFA livestock take with them a decline in people and a decline in biodiversity.

<sup>5</sup> Scottish Government, <https://www.environment.gov.scot/our-environment/state-of-the-environment/ecosystem-health-indicators/condition-indicators/indicator-4-farming-and-nature/>

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In addition, hundreds of thousands of hectares across Scotland are designated as Sites of Special Scientific Interest (SSSI) or other wildlife designations, such as Special Protection Areas (SPAs) under the EU Birds Directive, and rely on agricultural management for their conservation.

These include not only hills and uplands, but the habitats associated with moorland flora and the species-rich grasslands of in-bye ground.

Many of these sites require the commitment of their farming and crofting occupiers to safeguard their future. The agricultural management of different types of vegetation, sometimes including arable and forage crops, is also very important for species of farmland birds such as corncrake, lapwing and curlew.

Other key target species such as snipe and golden plover would suffer greatly from any decline in grazing and management on the majority of LFA farms and crofts that dominate land use. Scotland's hills and uplands require livestock grazing to sustain the delicate balance of plant, insect, bird and other animal species which make them unique.

It is also without question that iconic re-introduced species, notably white-tailed sea eagles, are significantly dependent on extensive hefted hill flocks in the LFA as a major source of prey and carrion. The sea eagle population has increased dramatically and now there are 130 pairs in Scotland and there could be up to 500 pairs by 2040<sup>6</sup>. The associated economic benefits of wildlife tourism arising from this conservation exercise have in part been derived from the continuation of traditional hefted flocks in some of Scotland's most challenged LFA.



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<sup>6</sup> BBC News, BBC, <https://www.bbc.co.uk/news/uk-scotland-48368247#:~:text=There%20are%20now%20known%20to,least%20500%20pairs%20by%202040.>

# Improving and Delivering the Key Elements of Support for Active Farming and Crofting in the LFA

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It is obvious that active farming and crofting in Scotland delivers a host of benefits – market and non-market. But it is also evident that the delivery of all these things in the public interest cannot be sustained from market returns alone.

In order to maintain and enhance the multiple benefits from extensive grazing systems there is a necessity for on-going public support. However, in these uncertain times and with a political and policy emphasis on public value, it is clear to NFU Scotland that the means of delivering support must not be dismantled in the short to medium term but refined instead.

## Retaining, Rebasing and Funding LFASS from 2021

NFU Scotland is clear that LFASS is uniquely important to Scottish farmers and crofters given the scale of poorer quality land that needs additional support to promote the viability of LFA livestock rearing businesses and all they deliver.

LFASS provides a vital injection of funding for LFA farmers and crofters and without the annual £65 million of lifeline support to the most agriculturally challenged areas of Scotland, many hill farms and crofts would be unsustainable which could lead to much wider ramifications - including agricultural land abandonment and its associated adverse impacts on habitats, landscapes and rural communities.



Yet farmers and crofters across Scotland's LFA will continue to face an increasingly challenging and uncertain future, not only in the wake of the UK's departure from the EU but also given the very marginal nature of what they do - both physically and financially. There remains a very real threat to hill farms and crofts without the security of LFASS, a vital funding stream to those in the most disadvantaged of areas.

That threat came into ever sharper focus from 2019 whereby, under EU rules, Scotland had the option of either continuing to operate LFASS on a reducing financial scale or replacing LFASS with an Area of Natural Constraint (ANC) scheme.

Given the critical delivery challenges, NFU Scotland backed the Scottish Government's decision not to move to an ANC scheme for 2019 and 2020. The loss of LFASS would also mean the complete loss of any targeting of this support to active farmers and crofters to an even blunter form of area-based payment.

So a move to an ANC scheme from 2021, as currently demanded by EU regulations, would result in a significant and highly destabilising redistribution of LFA support - potentially impacting on the viability of some businesses. There would also be a significant impact on delivery, with new IT systems and processes needing to be designed and implemented.

NFU Scotland proposes that the provisions within the Agriculture (EU Retained Law and Data) (Scotland) Bill - the Scottish Agriculture Bill - be used to ensure the continuity of LFASS from the 2021 scheme year - and with a maintained £65 million budget.

However, that comes with one significant proviso. Much more effective targeting could be achieved through LFASS if it were rebased. The scheme is currently run on livestock numbers, and therefore enterprise mixes, based on data captured in 2009. Over the last decade, many agricultural businesses have restructured, with many changing enterprises and/or reducing numbers while others have increased eligible livestock numbers as businesses have developed.

In order to address this flaw, NFU Scotland proposes that LFASS continues in its current form until 2024 but that it is re-based on livestock under the economic control of applicants over a three-year rolling average to ensure that LFASS is as 'live' as possible yet cannot be manipulated. Such an approach would also account for new and developing businesses and would avoid creating so-called anomaly cases as has happened with previous re-basing exercises.

Re-basing and a retention of the existing £65 million budget could also enable increases in the current payment rates, as well as ensuring this support is more effectively focused.

Moreover, and more urgently, the new legislation could and should also be used to unpick Scotland from existing EU demands that would further destabilise LFA farming and crofting interests - and everything they underpin. Current EU rules demand that LFASS 2020 be paid at only 40 per cent of LFASS 2018. Given that these payments will be made in Spring 2021, NFU Scotland urges that the Scottish Government uses the powers available in the new legislation to replace the EU requirement with payment rates equivalent to LFASS 2018 levels.



The Scottish beef sector is worth

**£830 million**

More than

**2 million**

breeding ewes in the LFA - 90 per cent of the Scottish breeding flock

Output from Scottish sheep production generates over

**£270 million**

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## Retaining and Improving Voluntary Coupled Support (VCS)

To improve the effectiveness of LFA-related support in the 2021 to 2024 period, NFU Scotland is clear that the existing coupled support schemes must continue to provide targeted support to active farmers and crofters. Both the Scottish Suckler Beef Support Scheme (SSBSS) and the Scottish Upland Sheep Support Scheme (SUSSS) are essential components of genuinely targeted LFA support – albeit that the operational side of the two schemes could be improved further from 2021.

### Scottish Suckler Beef Support Scheme (SSBSS)

In an era when the Scottish suckler herd has seen continued declines, the SSBSS has provided necessary and targeted support to maintain the income of suckler producers – and help secure their vital role in Scotland’s flagship beef sector. The current SSBSS also indirectly incentivises increased fertility and decreased calf mortality, thereby encouraging improved productivity. And beyond beef production per se, the SSBSS has a clear role in maintaining a host of socio-economic and environmental outcomes by helping suckler systems continue in more challenged agricultural landscapes.

NFU Scotland proposes that the SSBSS continues in its current form but must be reviewed in respect of how the shift to electronic identification through ScotEID for all cattle registrations and movements could be used to simplify scheme applications. There should also be increased communication prior to the SSBSS deadline to ensure that eligible farming and crofting businesses know when they can and should claim.

NFU Scotland also proposes that serious consideration be given to a return of front-loading of payments, i.e. a higher payment for, say, the first 10 eligible calves claimed. This would be in addition to the retention of the current distinctions between the Mainland and Islands, and would offer weighted support to smaller, often developing, suckler herds.



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## Scottish Upland Sheep Support Scheme (SUSSS)

The SUSSS has provided vital support to maintain sheep flocks on holdings that are reliant on BPS Region 3 land – the poorest of rough grazing and all of which is in Scotland's LFA. The continuation of direct support under BPS therefore requires the continuation of SUSSS in order for business viability to be maintained on some of Scotland's most disadvantaged and challenged land.

As well advocating the continuation of the SUSSS, NFU Scotland also proposes that steps are taken to simplify the SUSSS for applicants while continuing to deliver on the principles of the scheme. These proposals include

- Maintaining the upper limit of 1 ewe hogg per 4 hectares of Region 3 land requirement, while retaining the eligibility rule of 80 per cent Region 3 land
- Restricting the number of ewes hoggs claimed to 20 per cent of the number of breeding ewes in the flock, ensuring that the scheme is intentionally targeted at replacement ewes. There should, however, be an attempt to ensure that any change to inspections as a result of this is not overly onerous, i.e. there should be no requirement for a whole flock inspection during the retention period
- Simplifying the inspection and penalty regime with regards to ewe hoggs at retention locations via a warning system and proportionate sanctions, rather than the current draconian penalties that can be business-threatening

NFU Scotland believes that these improvements to the SUSSS could and should be made from 2021 under the powers introduced by the Scottish Agriculture Bill.





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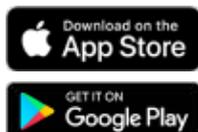
CONTACT US AT:

Jonnie Hall, NFU Scotland  
Rural Centre, West Mains  
Ingliston, Newbridge  
Edinburgh, EH28 8LT

E: [jonathan.hall@nfus.org.uk](mailto:jonathan.hall@nfus.org.uk)  
T: 0131 472 4002  
M: 07770 934898

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