



Rural and Agricultural Development – Maximising the Potential in the Islands of Orkney, Shetland & Outer Hebrides

Agricultural Policy



Suggested Citation:

Thomson, S., Pirie, S., Atterton, J., Moxey, A., Sellars, A., Chapman, P., Nelson, B., Naab, F., Jamwal-Fraser, O., MacMillan, I., McCracken, D., Sutherland, J., Macdonald, S., Stevens, J., and Glendinning, J., (2024) **Rural and Agricultural Development – Maximising the Potential in the Islands of Orkney, Shetland & Outer Hebrides.** A SRUC report to Orkney Islands Council, Shetland Islands Council, Comhairle nan Eilean Siar, Orkney Local Action Group, Shetland Local Action Group, Outer Hebrides Local Action Group, and Highlands and Islands Enterprise. DOI: <https://doi.org/10.58073/SRUC.26125552>

This project was funded by the Scottish Government's Community Led Local Development Fund, as part of the Scottish Rural Development Programme, and was delivered by the Orkney Local Action Group in collaboration with the Shetland Local Action Group, Outer Hebrides Local Action Group, Orkney Islands Council, Shetland Islands Council, Comhairle nan Eilean Siar and Highlands and Islands Enterprise.



Scottish Government
Riaghaltas na h-Alba
gov.scot



Scottish Rural
Development
Programme



ORKNEY
ISLANDS COUNCIL



Comhairle nan Eilean Siar



SHETLAND
ISLANDS COUNCIL



Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

4 Agricultural Policy Development

4.1 The CAP Evolution

23. Throughout its history, the Common Agricultural Policy (CAP) has undergone successive rounds of reform. These include the shift in emphasis away from market price support to direct payments during the 1990s and then the subsequent further shift to decoupled direct area payments in the early 2000s (first in relation to LFA support and then the Single Farm Payment). Such changes were motivated by several factors, including budgetary pressures, international (WTO) trading rules and increasing environmental concerns.
24. The introduction of decoupled direct payments was accompanied by associated conditionalities. That is, whilst receiving support was no longer dependent upon producing a given volume of agricultural output it was nonetheless conditional on observing a mix of management proscriptions and prescriptions. These were set with reference to Statutory Management Obligations and Best Management Practices and described respectively as Cross-Compliance (XC) and Good Agricultural and Environmental Condition (GAEC). Over time, these conditionalities have evolved, but the concept remains central to the current CAP and also underpins proposals for future Scottish agricultural policy.
25. The basis for the direct support itself has also evolved further, with the original Single Farm Payment morphing in 2014 into the Basic Payment Scheme plus accompanying Greening payment. At the same time, explicit links back to historical support arrangements were severed and convergence sought between payment rates across different countries. For Scotland, this saw the introduction of the current three-payment-region model plus an uplift in overall funding (albeit that realisation of the latter as 'Bew monies' was delayed by UK-level decisions).
26. Subsequently, the CAP had continued to evolve further. EU-exit means that these more recent changes do not apply to the UK but Scottish Government commitments to remain aligned wherever practicable imply that they remain of interest. For example, the distinction between Pillar I (i.e. mostly direct payments) and Pillar II (i.e. Rural Development) has been removed, with all support now described and justified in CAP Strategic Plans and cross-compliance has been renamed as simply 'conditionalities'. These changes are broadly consistent with Scottish proposals, as are amendments to GAEC to address wetlands/peatlands and carbon rich soils.
27. However, Scotland is less aligned with some other aspects of the current CAP. For example, requirements for internal convergence towards uniform payment rates for different types of land does not sit well with the current three region model in

Scotland. Similarly, LFA designations have been updated to a newer system of Areas of Natural Constraints (ANC). In addition, capping / degressivity (gradual reduction) and simplified schemes for small producers are now explicitly required, as is use of satellite imagery for monitoring purposes.

4.2 Scottish Agricultural Policy Evolution

28. Since the UK's exit from the EU, different parts of the UK have exhibited different policy trajectories. For example, whereas England has already started to remove the BPS (with complete removal by 2027) and replace it with a 'public money for public goods' model, change has progressed more slowly in Scotland and commitments to maintain direct support akin to the BPS have been made.
29. These commitments are manifest as the previous '[Stability and 'Simplicity'](#) policy position followed by the ongoing process of policy co-design with industry stakeholders through the Agricultural Reform Implementation Oversight Board (ARIOB).⁹ Whilst final decisions have yet to be made, outline proposals for future support arrangements are published in the [Agriculture and Rural Communities \(Scotland\) Bill](#) (as introduced) and previous Scottish Government [consultation on proposals for the Bill](#). The main structure of the proposed four-tier support model is shown in Figure 6 and can be summarised as follows.
- Tier 1 (base) will offer a non-competitive decoupled area payment to all eligible claimants adhering to a set of management proscriptions and prescriptions. This will be similar to the current BPS and associated cross-compliance plus Good Agricultural and Environmental Condition (GAEC), but with some additional conditionalities.
 - Tier 2 (enhanced) will also be a non-competitive decoupled area payment (plus some coupled payments), offered in return for adherence to more demanding conditionalities. This will be similar to current Greening, albeit with a greater variety of options, some of which are currently found in AECS. It is likely that entry to Tier 2 will require enrolment in Tier 1. Whereas Tier 1 will be an all-or-nothing payment, Tier 2 is likely to offer a sliding scale payment depending on how many enhanced conditionalities are met.
 - Tier 3 (elective) support will be akin to current AECS, FGS and capital grant schemes, offering support on a competitive basis. It is uncertain at the time of writing if there will be a requirement for prior Tier 1 and Tier 2 entry for all of the schemes, but there may be an expectation of progression within agri-environment climate type schemes across the Tiers.
 - Tier 4 (complementary) support will offer information, advice and training, potentially akin to the current Farm Advisory Service (FAS). There is

⁹ [Agriculture Reform Implementation Oversight Board – gov.scot \(www.gov.scot\)](#)

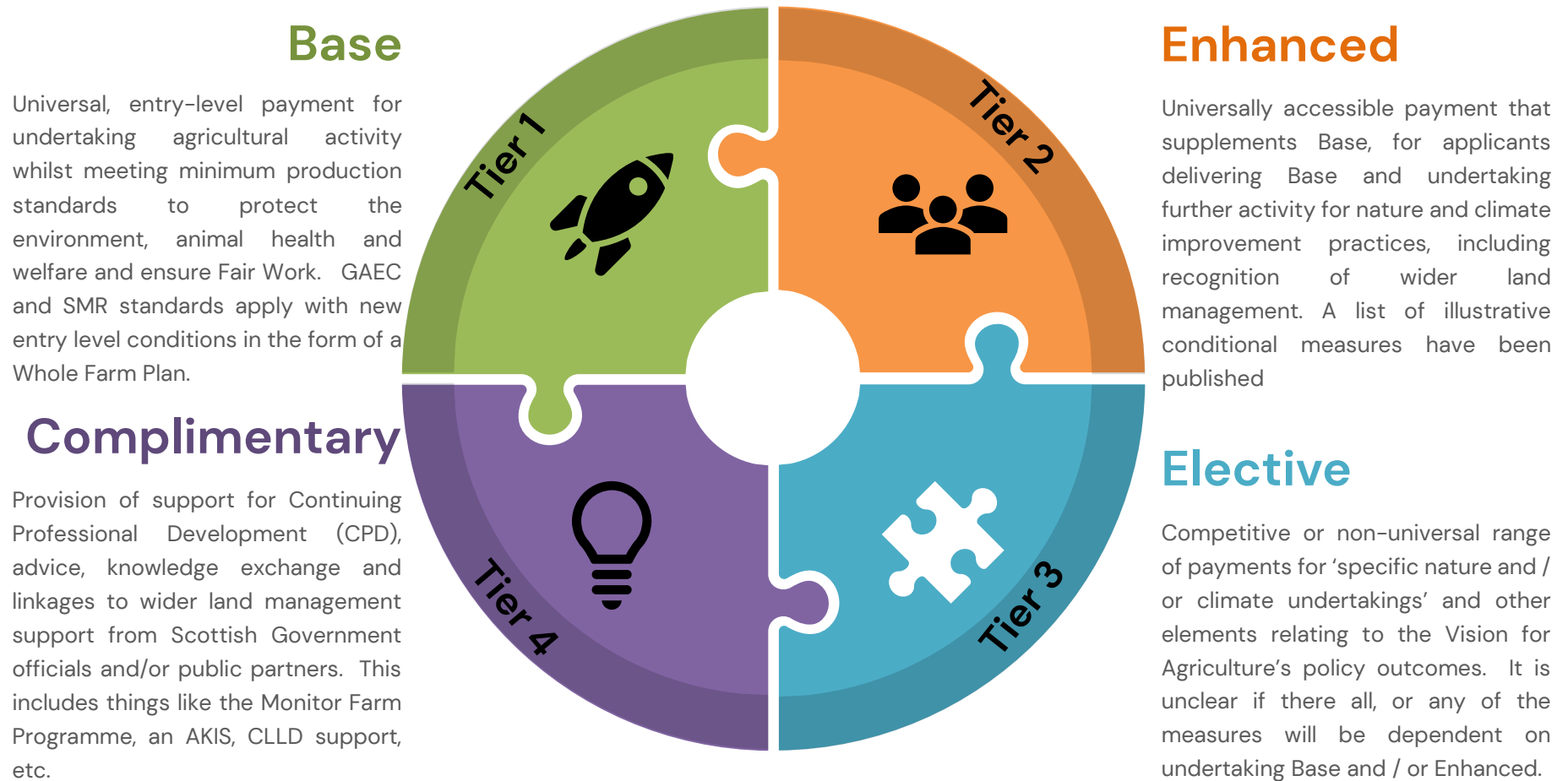
discussion of continued professional development (CPD) requirements for farmers and crofter, but also consultants – although there is limited detail on this at this stage.

30. The conditionalities currently being considered by the Scottish Government (see the [Agriculture Reform Programme](#) website) span three (overlapping) topics: production efficiency, emission reductions; and biodiversity/habitat management.
- Production efficiency measures are likely to involve attention to, for example, animal health, animal nutrition and breeding strategies.
 - Biodiversity/habitat management measures are likely to involve diverting some land to non-productive uses, such as wild bird seed or woodland creation.
 - Emission reduction measures are likely to include adoption of new technologies, such as methane inhibitors, but also best practice such as achieving calving intervals below a target threshold (the latter is proposed as a condition for payment under the coupled beef calf scheme).
31. It is not clear from the [Agriculture and Rural Communities \(Scotland\) Bill](#) nor the [Agricultural Reform Route Map](#) and previous consultations where the Less Favoured Area Support Scheme (LFASS) fits into this four-tier structure. LFASS is a complex scheme that is historically based and requires modernisation to reflect contemporary agricultural production and challenges in Scotland's most marginal areas. The options appear to be a bespoke scheme that is similar to the EU's Areas Facing Natural and Other Constraints (ANC) which the Scottish Government were previously developing¹⁰, or potentially a top-up to either Tier 1 or 2 payments. In response to a Parliamentary question the Cabinet Secretary for Rural Affairs and Islands announced that the replacement for LFASS would sit in Tier 2 Enhanced: *"once we have determined what and how to replace the current Less Favoured Area Support Scheme – LFASS – with additional support for where the greatest need is and where people are farming and crofting in the most marginal and challenging of circumstances, that funding will also be made available through Tier 2"*¹¹.
32. For places such as Orkney where LFASS is a significant component of the overall support package, the lack of policy development on a replacement scheme creates significant uncertainty and makes long term business planning extremely challenging. During stakeholder engagement the question of *"what are the Tier 2 LFASS conditions that will apply?"* was a common theme.

¹⁰ [Paper+9+--+Areas+facing+natural+constraints.pdf \(www.gov.scot\)](#)

¹¹ [Written question and answer: S6W-25463 | Scottish Parliament Website](#) 9th February 2024

Figure 6 Illustration of future tiered agricultural support in Scotland



33. Moreover, given the likely nature of conditionalities attached to Tiers 1 and 2, it is not clear whether the existing three-region structure for payment remains relevant. For example, two of the current regions are both defined as rough grazing and if not amended would therefore offer different payment rates for adhering to the same conditionality measures. Any change to the payment regions could be aligned to revisions to LFASS. Similarly, as yet, there is no indication of whether and how common grazings will fit into the four-tier structure. Given that they account for c.9% of agricultural land (and significantly more in some areas) this omission needs to be addressed although it has now been acknowledged by ARIOB as needing attention¹².
34. In addition to the budget announcement on the replacement for LFASS being allocated to future Tier 2 Enhanced, the Cabinet Secretary also announced that *"funding for Tiers 1 and 2 will constitute at least 70% of the overall funding envelope to support farming, crofting and land management from 2027. These are the tiers that will reflect most closely the direct payment regime, albeit with conditions built in from the start."*¹³ When combined this means that a minimum of 80% of the Scottish agricultural budget is politically committed to Tiers. The political commitment reflects the [Financial Memorandum of the Agriculture and Rural Communities \(Scotland\) Bill](#) that stated *"in broad terms, the government intends to maintain underpinning support through base payments (Tier 1) and universally accessible support for land managers undertaking climate and nature actions through the enhanced mechanism (Tier 2) and to do so at similar levels to current direct support"* adding *"in this context, the budget for Tiers 1 and 2 would include the Less Favoured Area Support Scheme (LFASS) budget."*
35. Table 2 shows the approximate allocation of Scottish agricultural spend by scheme and future Tier for 2023. It is estimated that 86% of c.£640m total budget is currently allocated to Tier 1 and 2 type schemes with the BPS accounting for 44% of the total budget, Greening 22%, LFASS 10%, SSBSS 6% AECS 6%, National Test Programme 3% and LEADER 1.8%. If the Scottish Government is to deliver against its wider climate and nature recovery objectives – as well as supporting rural communities and economies – then the eligibility conditions will have to be increased from within the existing budget.
36. Current conditionality is strongest in the cropping sector, where farmers need to comply with Ecological Focus Area requirements¹⁴ on top of the Good Agricultural

¹² [Agriculture Reform Implementation Oversight Board minutes: 8 December 2023 – gov.scot \(www.gov.scot\)](#)

¹³ [Written question and answer: S6W-25463 | Scottish Parliament Website](#) 9th February 2024

¹⁴ [Greening: Ecological Focus Area | Helping farmers in Scotland | Farm Advisory Service \(fas.scot\)](#)

and Environmental Conditions (GAEC)¹⁵ and Statutory Management Requirements¹⁶ that apply to all schemes. Other schemes have their own conditions, such as the SSBSS where calves must have 75% suckler beef genetics and be retained (alive) on a farm for 30 days after birth to be eligible for support.

Table 2 Estimated Scottish agricultural budget expenditure, 2023

Scheme	Budget (£m)	Budget (%)
Tier 1&2	£550.5m	86.0%
Basic Payment	£282.0m	44.1%
Greening	£142.0m	22.2%
Young Farmers Scheme	£1.0m	0.2%
Common Market Organisation	£13.0m	2.0%
Scottish Suckler Beef Support Scheme	£40.0m	6.2%
Scottish Upland Sheep Support Scheme	£7.0m	1.1%
Less Favoured Area Support Scheme	£65.5m	10.2%
Tier 3	£69.6m	10.9%
Agri-Environment Climate Measures	£35.8m	5.6%
Forestry Schemes	£0.1m	0.0%
New Entrants and Young Farmers Support	£2.0m	0.3%
Crofting Agricultural Grant Scheme	£3.4m	0.5%
Croft House Grant	£2.3m	0.4%
Small Farm Grants Scheme	£1.0m	0.2%
Food Processing, Marketing and Co-Operation	£0.0m	0.0%
National Test Programme	£20.0m	3.1%
Agricultural Transformation Fund	£5.0m	0.8%
Tier 4	£20.0m	3.1%
Monitor Farm	£0.4m	0.1%
LEADER	£11.6m	1.8%
Knowledge Transfer and Innovation Fund	£2.0m	0.3%
Farm Advisory Service	£5.0m	0.8%
Technical Assistance/Scottish Rural Network	£1.0m	0.2%

37. Four stated policy outcomes are sought through the proposed policy support structure. These are:

- The food production sector is a productive and sustainable part of the economy helping Scotland's people live and work sustainably on our land.
- The transition to Net Zero supports the rural economy and supports efforts to reduce rural poverty and inequality, targeting support to those who need it most.
- Reduced Greenhouse Gas emissions from the agricultural sector.
- A substantial regeneration of biodiversity, ecosystem and soil health.

¹⁵ [Good agricultural and environmental conditions \(GAECs\) | Information helping farmers in Scotland | Farm Advisory Service \(fas.scot\)](#)

¹⁶ [Statutory management requirements \(SMRs\) | Information helping farmers in Scotland | Farm Advisory Service \(fas.scot\)](#)

38. Whilst each outcome can be linked via a logic chain back to the proposed Tiers and individual within-tier measures, the degree of complementarity or conflict between outcomes is uncertain. For example, although increased production efficiency can deliver some emission reductions and biodiversity gains, at some point trade-offs are likely to be incurred. Moreover, the nature of any trade-offs is likely to be highly site-specific, varying with local environmental conditions and prevailing management systems. This is illustrated starkly by the different characteristics of the three island groupings of Orkney, Shetland and the Outer Hebrides, and is the considered in the remainder of this report.
39. The [Agriculture and Rural Communities \(Scotland\) Bill](#) framework enables the continuation, amendment and deletion of existing agricultural support schemes and regulations. The details of how agriculture is to be supported will be in the form of secondary legislation that will be introduced to the Scottish Parliament over the next few years. The details and policy intervention logic, and targets should be contained in 'Rural Support Plan' that the Bill refers to – but it is uncertain when that will be published.

4.3 Policy changes in 2025

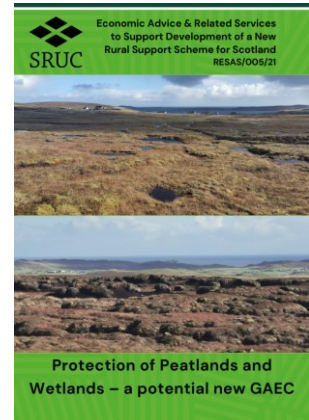
40. In addition to the longer term policy changes that the [Agriculture and Rural Communities \(Scotland\) Bill](#) aims to deliver, the Scottish Government have committed to changes in agricultural support conditions in 2025 following SNP manifesto commitments made in 2021¹⁷ that: *"By 2025, however, we will shift half of all funding for farming and crofting from unconditional to conditional support and there will be targeted outcomes for biodiversity gain and a drive towards low carbon approaches which improve resilience, efficiency and profitability."* To meet that commitment and to start a 'Just Transition' in the sector the Cabinet Secretary for Rural Affairs and Islands announced in 2023¹⁸ that there would be changes to existing schemes in 2025. In particular:
- A new GAEC cross compliance condition introduced from 2025 to protect peatland and wetland.¹⁹
 - Foundations of a Whole Farm Plan as new entry level standards that *"which will include soil testing, animal health and welfare declaration, carbon audits, biodiversity audits and supported business planning."*
 - Calving Interval condition for the SSBSS *"to help cut emissions intensity and make beef production more efficient"*.

¹⁷ [How will the SNP support Scotland's farmers? – Scottish National Party](#)

¹⁸ [Future agricultural support – gov.scot \(www.gov.scot\)](#)

¹⁹ [Protecting Scotland's peatlands will be key part of future rural policy – gov.scot \(www.gov.scot\)](#)

41. The new peatland and wetland GAEC measure mirrors a new GAEC that was introduced in the latest version of the EU's CAP. Member States were given until 2025 to comply with the new cross compliance measure. In the March 2024 update of the [Agriculture Reform Route Map](https://www.ruralpayments.org/topics/agricultural-reform-programme/arp-route-map/) announced a new GAEC 6 measure 'Maintenance of Soil Organic Matter' to apply from 2025. This new GAEC 6 established standards to prohibit a range of activities on peatlands and wetlands of those in receipt of agricultural support. The activities prohibited include: (i) Ploughing and cultivation; new drainage and maintenance of existing drainage systems that causes further drying out of the peatland (ii) Activities that cause damage to the vegetation cover exposing the soil.²⁰
42. The fine detail of this new cross compliance GAEC appear to still be being drafted (along with maps to define peatland and wetland areas) but will be of particular interest to farmers and crofters in all island groupings, but in particular Shetland and the Outer Hebrides. Noting a lot of grassland is located on peaty soils, the Scottish Government also announced that the new GAEC 6 will only apply to **"land with peat soils more than 50 cm in depth with a near natural vegetative cover and also to wetland habitats."**
43. The Scottish Government also announced that from 2025 in order to claim BPS and Greening support some of the elements of the future Whole Farm Plan will have to be completed by applicants²¹. Farmers and crofters applying for support will have to undertake two measures from: (i) soil testing for carbon; (ii) carbon audit (CA); (iii) biodiversity audit / habitat assessment (BA); (iv) animal health and welfare plan (AHWP); (v) integrated pest management plan (IPMP). Those that already have these measures in place (e.g. an AHWP or IPMP as part of Farm Assurance Scheme) will be credited and that a carbon audit completed in the last 5 years will comply.
44. Many larger farms will already be compliant with these standards, but for many small holders or crofters these will be represent new compliance costs. Further, there will likely be local capacity issues in getting, for example, carbon audits and habitat assessments completed by consultants, particularly when there is a need to have sign-off from a 'suitably qualified person' (CA, IPMP, AHWP). The same may apply to the availability of vets in some places. It is understood that for 2025 a light touch approach to compliance will be enforced, with no penalties for non-compliance. However, the approach in 2026 and beyond and sanctions for of non-



²⁰ <https://www.ruralpayments.org/topics/agricultural-reform-programme/arp-route-map/>

²¹ <https://www.ruralpayments.org/topics/agricultural-reform-programme/arp-route-map/>

compliance remain uncertain. Other WFP points requiring further clarification include:

- Which fields need soil carbon testing and how frequently remain uncertain – and if on both grass and cropping fields then whether this is only within Region 1 BPS land, or whether it includes any grassland in Region 2 and Region 3 land parcels.
- What constitutes a Biodiversity Audit – details remain opaque. Notwithstanding many discussions from NatureScot on a new ‘App’ to permit self-selection of habitats using filed parcel boundaries etc, significant clarification of the process and purpose are required (e.g. if it is to baseline nationally there are likely more robust scientific methods to generate this intelligence).

45. The Calving Interval condition demonstrates a commitment to rewarding those achieving technical efficiency standards, that (a) improve financial performance of the business, and (b) lower greenhouse gas emissions (notably excess methane emissions). The Scottish Government appointed an industry stakeholder group to consider a wide array of issues (small herds, breeds, second-calvers, split payments, etc.)²² regarding implementation of this new condition. In March 2024 there was an announcement by the Cabinet Secretary for Rural Affairs and the Islands that a new eligibility criterion of 410 days²³ calving interval on the dams of calves claimed through SSBSS will be introduced in 2025. Concerns noted by stakeholders included the impacts on small herds that may only have a single bull and are reliant on rented bulls (either from neighbours, or from the Scottish Government’s Bull Hire Scheme). During engagement with industry from this project it was brought to our attention that, for example, there is no current capacity for bull testing in Shetland.



46. On top of these policy conditions in 2025, cattle farms in particular have new legal requirements regarding slurry and silage effluent storage and application through the evolving General Binding Rules²⁴ introduced by the [Water Environment \(Controlled Activities\) \(Scotland\) Amendment Regulations 2021](#). There may be greater statutory muirburn and pest species control introduced through the [Wildlife Management and Muirburn \(Scotland\) Bill](#) and bracken control has been

²² See (i) <https://doi.org/10.58073/SRUC.24756009.v1> (ii) <https://doi.org/10.58073/SRUC.24756195.v1> (iii) <https://doi.org/10.58073/SRUC.24756441.v1>

²³ <https://www.gov.scot/news/agricultural-support-is-changing/>

²⁴ [New General Binding Rules on Silage & Slurry – FAQs – Farming and Water Scotland](#)

made more challenging due to the withdrawal of Scottish Government approval for Asulox²⁵ due to environmental and human health reasons²⁶.

4.3.1 Island Community Impact Assessment (ICIA)

47. In February 2024 the Scottish Government published the Agriculture and Rural Communities (Scotland) Bill Islands Communities Impact Assessment²⁷ where they concluded that there *"is no specific identified or different impact of the policy on islands or island communities, compared to other communities"* and that a *"full Islands Community Impact Assessment is NOT required"*.
48. The challenge of an ICIA on a framework bill is that none of the policy details exist to determine the 'on-ground' impacts. Hence the published conclusion is not surprising. However, the direction of policy is clear enough to consider how specific future policy measures will likely affect land use and agricultural activity in the islands – which is what this report considers. The implication is that a full ICIA may become appropriate in due course once more policy details are known. In particular, it is important that all future measures are considered jointly in-the-round. Individual measures taken in isolation may be regarded as insufficiently impactful to merit attention, yet their collective impacts may be significant. This suggests a need for clarity over ICIA threshold criteria and decision-making processes (see also Section 11).²⁸
49. The islands are different – there is no doubt about that – be it the relative importance of the agriculture sector in local economies, local communities (especially crofting communities), cultural heritage, fragile supply chains, etc. Moreover, the agricultural activity in the islands is extremely fragile and some areas have witnessed over 20 years of agricultural abandonment that impacts on vibrancy of local economies and communities, and their ability to manage some of the UK's most important peat reserves and habitats (over 80% of emissions in the island groups studied are attributable to Agriculture and Land Use, Land Use Change & Forestry sectors). The sensitivity of the sector to changes in policy support, and ever increasing additional costs (haulage), on production systems with very limited production options (other than sheep

Forestry	No issues have been raised as the powers within the Bill are to enable continuity of the existing Forestry Grant Scheme, so far as possible, which is not perceived to have a likely impact on Island communities	Not applicable
----------	---	----------------

²⁵ [Asulam Announcement Marks Further Blow to Bracken Control in Scotland \(nfus.org.uk\)](https://nfus.org.uk)

²⁶ [Use of Asulox for bracken control – gov.scot \(www.gov.scot\)](https://www.gov.scot)

²⁷ [Agriculture and Rural Communities \(Scotland\) Bill Islands Communities Impact Assessment – gov.scot \(www.gov.scot\)](https://www.gov.scot)

²⁸ Similarly, whilst future policy measures have yet to be finalised, some measures have been announced for 2025 under existing legislation. That these did not trigger a full ICIA suggests that, taken in isolation, they were not deemed sufficiently impactful.

and beef production) that is already engrained in existing support such as the island / cattle uplifts in Scottish Suckler Beef Support Scheme and Less Favoured Area Support Scheme respectively, or the fact that afforestation is not feasible in many areas should at least merit explicit consideration in the initial screening for full ICIA.

50. The timing of any future ICIA also needs some consideration. By the Scottish Government's own admissions in evidence to the Scottish Parliament – secondary legislation, as and when prepared, will provide details of components of new schemes – with the sum of the parts (and island impacts) never clear until all secondary legislation is laid before parliament. Hence, for example, an ICIA to accompany the Rural Support Plan when it is laid before Parliament might be better (as per recommendations in the Stage 1 report from the Rural and Island Committee). The ICIA should also fully discuss how proposed policy changes will be delivered in a 'Just Transition'.

4.3.2 WTO & UK constraints

51. Although agriculture is a devolved responsibility, the Scottish Government does not have a free hand in setting agricultural policy but rather is subject to UK-level and international-level constraints.
52. Internationally, the UK (and by extension Scotland) is bound by trade rules. Whilst some trading arrangements are bilateral with other specific countries or trading blocs (e.g. the EU, Australia) there are also overarching rules overseen by the World Trade Organisation (WTO). In particular, commitments to reduce distortion in agricultural trade mean that opportunities for agricultural policy to explicitly support agricultural production are limited. This is why most countries have moved away from market price guarantees and coupled direct payments towards decoupled area payments. The rules also manifest as stipulations that agri-environmental payment rates must be pegged to income foregone and cost incurred. In WTO terminology, support should be 'green box' and the scope for deploying 'amber box' or blue box' measures is limited.
53. Scotland's compliance with WTO and/or bilateral trade agreements is further complicated by the UK leading on all such negotiations, and complexity in disaggregating, for example, amber box allowances to different parts of the UK. However, domestic legislation also applies constraints. In particular, the UK Internal Market Act and the UK Subsidy Control Act both mean that agricultural support decisions in Scotland are subject to scrutiny by other parts of the UK, and concerns about potential distortions to domestic trade could block Scottish decisions. Agreed procedures to identify and resolve potential issues are in place but have not yet been triggered for agriculture (but the Scottish deposit return scheme illustrates the potential for tensions).

54. In addition, Scotland is also constrained by UK government decisions on agricultural funding allocations to the Devolved Administrations. This relates to both the level of funding but also to its duration. Whereas CAP funding was set for a seven-year planning period, UK funding decisions are only made one year in advance. This limits the scope for long-term planning and has been a repeated point of frustration for the Scottish Government, and indeed parliamentary committees.
55. Equally, UK government calculations of agreed funding are lower than expected by Devolved Administrations and, moreover, have declined in real-terms due to inflationary pressures in recent years. Consequently, and with little scope to boost funding from other sources, the Scottish Government's buying power from the land use sector has diminished. Hence funding commitments are effectively restricted to maintaining the budget level in cash terms, with the further indication that c.70% of this will be allocated to Tiers 1 and 2.

4.4 Compliance Costs

56. It is understood that work assessing the additional compliance costs of new entry level standards for Tier 1, and the compliance costs for Tier 2 conditionality measures has been commissioned by the Scottish Government. In the absence of the results from this research, ongoing modelling work within SRUC²⁹ has estimated additional compliance costs of undertaking a Whole Farm Plan and whether these costs were new (using a simulation model that estimates costs based on probabilities of exiting uptake based on BRN size).
57. Using expertise from SAC Consulting and from the literature (including work ongoing in England and Wales) modelled estimates of compliance costs (including farmer time) range from:
- Soil Testing: £57 to £77 per 4 ha sample (grass and crop fields every 6 years)
 - Animal health and Welfare Plan: £158 to £658 (per year)
 - Carbon Audit: £473 to £2,268 (every 4 years)
 - Habitat Assessment: £270 to £2,156 (every 4 years)
 - Integrated Pest Management Plan £135 to £1,358 (every year)
58. Further, estimates of Tier 2 compliance costs were made based on a number of modelling assumptions that affect gross margin per hectare. For example, technical efficiency / greenhouse gas mitigation measures (e.g. increased feed efficiency, reduced mortality, calving interval improvements) are shown to have

²⁹ A model has been developed as part of the Novel Insights on Scotland's Rural & Island Economies project as part of the Scottish Government's 2022-2027 Strategic Research Programme. The model has been evolved through commissioned research for RESAS on Analysis to Support an Options Appraisal for the Agricultural Reform Programme.

the potential to improve or reduce margin, whilst biodiversity Tier 2 measures are generally more focused on 'land sparing' (e.g. margins, hedgerows, flower meadows) leading to reduced gross margin on the total area to which Tier 2 measures are required to be applied (this was assumed at 10% of total declared area (and accounted for ineligible features that may be positive for nature).

59. The modelled additional costs for Tier 1 and Tier 2 are provided in Table 3. Small businesses are least likely to already engage in Whole Farm Plan components (as confirmed by stakeholder engagement and SAC Consulting experts) meaning that they are likely to face the highest marginal cost per hectare to comply with new Tier 1 entry level standards. This observation is why there are higher relative compliance costs modelled in the Outer Hebrides (£500k for c.£3.07m Tier 1 support) than in Shetland (£218k for c.£4.8m Tier 1 support) and Orkney (£403k for c.£9.9m Tier 1 support). In contrast, more intensive and productive land has higher Tier 2 compliance costs as gross margins per hectare are higher. In Orkney the modelled change in gross margin were c.£799 for c.£9.9m Tier 2 support as a result of more intensive cattle grazing on grassland, compared to, for example c.£218k for c.£4.8m Tier 2 support in Shetland where there is a greater proportion of extensive sheep grazing with lower gross margin. The model estimates that in the Outer Hebrides, combined Tier 1 and Tier 2 compliance costs are c.2.3% of turnover and 10% of support payments, compared to only 0.9% of turnover and 6% of support payments in Shetland.
60. The modelled compliance costs also confirm that smaller producers are faced with higher costs per hectare or per £1 of support received, putting them at greater risk of withdrawing from the support structure if perceived compliance costs start to outweigh receipts. These estimates are dependent on the underlying assumptions made and should only be used as indicative examples.

Table 3 Modelled additional costs for T1 whole farm plan, and income foregone for Tier 2 conditionality measures

Values	Outer Hebrides	Orkney	Shetland
2022 BRNs claiming T1 & T2 support	1,331	659	785
T1 & T2 Payments 2022	£7,145,512	£19,726,664	£9,618,849
2022 BRNs engaged in Tier 3 schemes	233	247	61
T3 support payments 2022	£914,086	£2,100,745	£418,913
Modelled BRN Turnover	£30,837,109	£75,200,930	£61,655,063
Modelled Tier 1 additional entry level costs	£513,023	£403,557	£347,481
Modelled income foregone for Tier 2 conditionality measures	£181,423	£798,654	£218,618
T1 & T2 compliance costs as % Turnover	2.3%	1.6%	0.9%
Compliance costs as % T1 & 2 Support	10%	6%	6%

4.5 Small Recipient Scheme?

61. Thomson and Moxey (2023)³⁰ note that within the EU's CAP there is an option to introduce a small farmer scheme to replace other forms of direct support, up to a limit of €1,250 as stipulated in Art 28 of Regulation (EU) 2021/2115³¹. These EU payments can be made as a lump sum or as area-based payments. In a Scottish context, €1,250 is quite a small payment, but as Scottish agricultural support becomes increasingly complex to reflect a renewed focus on delivering public goods, there remains a risk that without redistributive support or uplift to BPS R3 (in particular), some current small scale farmers and crofters may perceive the compliance costs too high compared to their receipts and opt out. In such a situation, the Scottish Government would have limited influence/leverage over their activities.
62. Thomson and Moxey's 2022³² concept note examined the potential number of farmers and crofters (and agricultural activity) that may be affected by any hypothetical small farmer scheme, recognising that such a scheme could offer simplification for both administrators (RPID) and small-scale producers. Indeed, in late 2023 ARIOB, in discussing entry level requirements, noted that *"proportionality was raised – some businesses could take this on with relative ease, but many would find it challenging and inevitably require the services of advisors."*³³
63. Whilst the ARIOB minutes from December 2023³⁴ state in reference to a small recipient scheme that: *"Officials have learned via the WFP (Whole Farm Plan) steering group that small producers and crofters don't want to be excluded so there may be some scope for a wrap-around with the small producers scheme pilot"*, stakeholder engagement for this project demonstrates a lack of understanding of potential compliance costs for entry to Tier 1 and compliance costs of Tier 2 conditionality. Further, stakeholders suggest that they do not want to be excluded from support payment options and that they were unclear on what

³⁰ Thomson, S. and Moxey, A.P. (2023) An assessment of future Scottish agricultural policy design alignment with the EU's Common Agricultural Policy. A report to the Scottish Government. DOI: <https://doi.org/10.58073/SRUC.25343005>

³¹ Regulation (EU) 2021/2115 of the European Parliament and of the Council of 2 December 2021 establishing rules on support for strategic plans to be drawn up by Member States under the common agricultural policy (CAP Strategic Plans) and financed by the European Agricultural Guarantee Fund (EAGF) and by the European Agricultural Fund for Rural Development (EAFRD)

³² Thomson, S. and Moxey, A. (2022) [Concept Note: Scope for an elective 'lite' Small Recipient Scheme](#) (SRS).

³³ [Agriculture Reform Implementation Oversight Board minutes: 8 December 2023 – gov.scot \(www.gov.scot\)](#)

³⁴ <https://www.gov.scot/publications/agriculture-reform-implementation-oversight-board-minutes-8-december-2023/>

the Small Producers Scheme Pilot was delivering. It is important not to conflate mainstream support with this small pilot.

64. The Scottish Government has suggested that they are looking at an option of a smallholder scheme to include recipients under 30 hectares (reflecting the Small Producers Scheme Pilot), but as ARIOB minutes reflect: *“30 hectares of Region 3 land is very different to 30 hectares of Region 1 land and this will have to be factored in.”* For that reason and for alignment to EU principles, it is probably more equitable that any small recipient scheme be based on total support receipts – and that it is totally optional and would require some specific conditions based on agricultural activity and some cross compliance measures aimed at improving biodiversity, animal health and welfare, etc.
65. Table 4 provides examples of the proportion of 2022 baseline BRNs, Tier 1 and 2 support payments, BPS eligible and claimed hectares and livestock units that could be eligible under different type of scheme thresholds. For example:
- A 30 Ha threshold would potentially account for 27% of Orkney BRNs (but only 3.6% of support and 3.3% of livestock units), 22% of Outer Hebrides BRNs (that account for 3.8% of BPS claimed area, 6.5% of support payments and 6.9% of livestock units) and 20% of BRNs in Shetland (2.8% of Tier 1 and 2 support and 3% of livestock units)
 - A threshold of less than £3,000 in Tier 1 and 2 support would potentially cover 51% of BRNs in the Outer Hebrides (15% of the Tier 1 and 2 support, and 19% of the livestock units), 32% of BRNs in Shetland (4% of the Tier 1 and 2 support, 5.7% of the claimed area and 5.1% of the livestock units) and 14% of the BRNs in Orkney (but only 1% of the Tier 1 and 2 support, 1% of the BPS claimed area and 1% of the livestock units).
66. Any such small recipient scheme could be ‘topped up’ with a collaborative action payment to reflect the environmental and community benefits of collective delivery amongst land managers – particularly in crofting areas.



Table 4 Examples of small recipient scheme options and coverage of BRNs, BPS areas, Tier 1 and Tier 2 support and livestock units

Small recipient option	Metric	Rest of Scotland	Orkney	Outer Hebrides	Shetland
2022 Baseline	BRNs	15,051	661	1,302	784
	T1 & T2 Support	£493.9m	£19.6m	£7.1m	£9.7m
	BPS Eligible Ha	4.5m	77,770	144,337	119,380
	BPS Claimed Area	3.6m	72,142	119,724	107,161
	Livestock Units	1.8m	62,299	15,331	29,863
<=30 Ha	BRNs	22.3%	27.2%	22.4%	19.8%
	T1 & T2 Support	2.0%	3.6%	6.5%	2.8%
	BPS Eligible Ha	1.1%	3.7%	3.8%	2.2%
	BPS Claimed Area	1.2%	3.6%	3.8%	2.1%
	Livestock Units	2.3%	3.3%	6.9%	3.0%
<=£1,500 T1+T2	BRNs	7.6%	6.4%	23.0%	15.7%
	T1 & T2 Support	0.2%	0.2%	3.9%	1.2%
	BPS Eligible Ha	0.9%	0.8%	7.4%	3.0%
	BPS Claimed Area	0.4%	0.3%	6.0%	2.0%
	Livestock Units	0.6%	0.4%	5.9%	1.8%
<=£3,000 T1+T2	BRNs	15.8%	14.1%	50.9%	32.4%
	T1 & T2 Support	0.8%	0.8%	15.0%	4.1%
	BPS Eligible Ha	1.7%	1.6%	22.5%	7.5%
	BPS Claimed Area	1.0%	1.0%	19.7%	5.7%
	Livestock Units	1.2%	0.9%	18.9%	5.1%
<=£5,000 T1+T2	BRNs	23.8%	21.8%	69.4%	47.2%
	T1 & T2 Support	1.7%	1.8%	27.8%	8.8%
	BPS Eligible Ha	3.4%	4.0%	38.6%	14.1%
	BPS Claimed Area	2.2%	2.3%	34.8%	11.5%
	Livestock Units	2.2%	1.7%	32.8%	11.2%

4.6 Redistributive, 'Front Loading'?

67. There has been recent calls from smallholders and crofters for a more equitable share of agricultural support payments, in particular, through redistributive support mechanisms³⁵. Thomson and Moxey (2023)³⁶ note that within the EU's CAP there is a mandatory requirement to introduce a Complimentary Redistributive Income Support for Sustainability (CRISS). The aim of the redistributive payment is to increase the share of support going to small and

³⁵ See, for example: [SCF calls MSPs to amend agriculture bill to ensure a fairer distribution – Scottish Crofting Federation](#)

³⁶ Thomson, S. and Moxey, A.P. (2023) An assessment of future Scottish agricultural policy design alignment with the EU's Common Agricultural Policy. A report to the Scottish Government. DOI: <https://doi.org/10.58073/SRUC.25343005>

medium sized farms. Article 98 of Regulation (EU) 2021/2115³⁷ requires a minimum of 10% of direct payments to be redistributed as higher payments to the first few hectares on each farm. Thomson and Moxey's (2022) concept note on redistributive support³⁸ provides examples of how redistributive support could affect support rates in Scotland.

68. Different redistributive payment uplift rates across the current 3 region BPS model are administratively burdensome to calculate. Thomson and Moxey suggested a redistributive model where the budget is redistributed evenly across the first 'x' hectares – thereby providing a simpler and more equitable model that gives more appropriate uplifts for poorer quality land. Any future changes to normalise Region 3 and Region 2 rough grazing BPS may be considered redistributive but it still does not specifically target uplifts at small holders in the way that CRISS payments are designed to do.
69. Using the NISRIE agricultural payments model³⁹ redistributive support scenarios have been modelled to provide indicative outcomes for the island groupings. The modelling does, however, require a number of key assumptions to be made. First, what proportion of budget is to be redistributed (10% was modelled). Second, which budget elements are to be redistributed (BPS, Greening and Young Farmer Payment support was modelled). Third, what and how should the redistributive budget be reallocated (a single uplift rate based on different percentile areas of BPS claimed hectares was modelled – with the uplift the same for all BPS regions). Table 5 shows the first 'x' hectares the modelled redistributive scenarios were paid on, the total area paid on, and the uplift payment rate made to the first 'x' hectares.

Table 5 Redistributive payment allocation scenario

BPS Claim Area Percentile	BPS Claim Area (first 'x' ha)	Hectares available for redistributive allocation	Uplift rate (first 'x' ha)
10th	10.6 ha	181,426 ha	£237
15th	16.0 ha	266,584 ha	£161
20th	22.3 ha	358,967 ha	£120
25th	29.2 ha	453,715 ha	£95
30th	37.3 ha	559,482 ha	£77

³⁷ Regulation (EU) 2021/2115 of the European Parliament and of the Council of 2 December 2021 establishing rules on support for strategic plans to be drawn up by Member States under the common agricultural policy (CAP Strategic Plans) and financed by the European Agricultural Guarantee Fund (EAGF) and by the European Agricultural Fund for Rural Development (EAFRD)

³⁸ Thomson, S. and Moxey, A. (2022) [Concept Note: Scope for Redistributive Support in Scotland](#).

³⁹ A model has been developed as part of the Novel Insights on Scotland's Rural & Island Economies project as part of the Scottish Government's 2022–2027 Strategic Research Programme.

70. Table 6 shows the effects that different redistributive payment scenarios could have on support payments by different BPS claim sizes. It is noticeable that payments to BPS claims of less than 10 Ha provide a considerable uplift when the redistribution is made on only the first 10.6 Ha (£170k uplift in the Outer Hebrides), but that uplift rapidly dissipates in other scenarios as the 10% redistributive budget is spread over greater areas. In contrast the 30–50 Ha BPS claim size category benefits approximately equally under all scenarios,
71. It should be stressed that this modelling exercise is purely illustrative of various redistributive scenarios that rely entirely on the assumptions above – in particular the choice of a single uplift payment rate across all BPS regions. Indeed, any such redistributive support scheme may mitigate the need for a specific small recipient scheme – albeit the trade-offs of both should be afforded detailed consideration when the specifics of policy proposals are better known.

Table 6 Modelled redistributive payment scenarios based on 10% of Tier 1 and Tier 2 support less LFASS and coupled support in 2022

Claim Size	Redistributive scenario	Orkney	Outer Hebrides	Shetland	Rest of Scotland
<10 Ha BPS Claim	Tier 1 & 2 Less LFASS & VCS	£88.3k	£109.0k	£56.4k	£1.8m
	First 10.6 Ha uplift	£180.5k	£279.9k	£142.8k	£3.7m
	First 22.3 Ha uplift	£130.5k	£190.0k	£97.3k	£2.7m
	First 37.3 Ha uplift	£112.2k	£157.0k	£80.6k	£2.3m
10–20 Ha BPS Claim	Tier 1 & 2 Less LFASS & VCS	£230.3k	£252.0k	£126.0k	£3.6m
	First 10.6 Ha uplift	£392.2k	£629.3k	£351.1k	£6.4m
	First 22.3 Ha uplift	£338.3k	£516.9k	£273.8k	£5.5m
	First 37.3 Ha uplift	£291.3k	£412.9k	£216.3k	£4.7m
20–30 Ha BPS Claim	Tier 1 & 2 Less LFASS & VCS	£325.6k	£264.2k	£152.9k	£4.8m
	First 10.6 Ha uplift	£448.4k	£571.2k	£288.1k	£6.8m
	First 22.3 Ha uplift	£456.9k	£589.6k	£297.2k	£7.0m
	First 37.3 Ha uplift	£414.5k	£491.8k	£255.4k	£6.2m
30–50 Ha BPS Claim	Tier 1 & 2 Less LFASS & VCS	£674.4k	£588.2k	£432.6k	£11.5m
	First 10.6 Ha uplift	£827.5k	£1,156.1k	£725.3k	£14.2m
	First 22.3 Ha uplift	£842.2k	£1,197.8k	£747.6k	£14.5m
	First 37.3 Ha uplift	£847.3k	£1,217.8k	£759.8k	£14.6m
50–100 Ha BPS Claim	Tier 1 & 2 Less LFASS & VCS	£2.1m	£1.1m	£869.8k	£38.8m
	First 10.6 Ha uplift	£2.3m	£1.8m	£1,171.4k	£41.9m
	First 22.3 Ha uplift	£2.3m	£1.9m	£1,197.3k	£42.3m
	First 37.3 Ha uplift	£2.3m	£1.9m	£1,227.8k	£42.9m
>100 Ha BPS Claim	Tier 1 & 2 Less LFASS & VCS	£8.7m	£2.9m	£5.5m	£345.3m
	First 10.6 Ha uplift	£8.4m	£3.5m	£5.7m	£328.4m
	First 22.3 Ha uplift	£8.4m	£3.5m	£5.7m	£329.6m
	First 37.3 Ha uplift	£8.4m	£3.6m	£5.8m	£331.0m
Total	Tier 1 & 2 Less LFASS & VCS	£12.1m	£5.2m	£7.2m	£405.7m
	First 10.6 Ha uplift	£12.5m	£7.9m	£8.4m	£401.5m
	First 22.3 Ha uplift	£12.5m	£7.9m	£8.3m	£401.6m
	First 37.3 Ha uplift	£12.4m	£7.8m	£8.3m	£401.7m