



Committee of Inquiry  
into **the Future of Scotland's  
Hills and Islands**

**SUMMARY REPORT**

September 2008

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## **PREFACE**

In January 2007, the Council of the RSE established a Committee of Inquiry into the future of Scotland's hill and island areas. The inquiry was prompted by concern at the consequences of changes to the Common Agricultural Policy on farming, especially sheep farming, and the threat to the future of some communities, but it was also to examine relevant economic, environmental and social matters. I believe that this represents the most comprehensive study of these issues ever undertaken in Scotland.

Conflicts between the uses of the land resource have become a matter of global concern, with choices between energy use, food production and, increasingly, the importance of carbon sequestration in the light of global climate change. Communities in Scotland's hill and island areas will increasingly have an important role in the appropriate management of Scotland's land resource, and recognition needs to be given to structures needed to ensure they continue to thrive.

It is my hope that this Report will stimulate and inform public debate on the issues and provide an evidential base upon which policy can be based and decisions taken.

**Sir Michael Atiyah**, OM, FRS, FRSE, HonFREng, HonFMedSci  
*President, The Royal Society of Edinburgh*

## **FINANCIAL SUPPORT**

The Royal Society of Edinburgh is Scotland's National Academy of Science, Arts and Letters. It is a wholly independent body and the funding for the Inquiry therefore had to be raised from a variety of sources. The Society received a ready response from all those listed below. Without their help, this Inquiry could not have been undertaken and to all of them we are most grateful.

**Argyll and Bute Council**

**Comhairle nan Eilean Siar**

**Highland Council**

**Highlands and Islands Enterprise**

**Orkney Islands Council**

**Perth & Kinross Council**

**Scottish Enterprise Rural Group**

**Shetland Islands Council**

**South of Scotland Alliance**

**The Lisbet Rausing Trust**

**The MacRobert Trust**

**The Robertson Trust**

**The Royal Highland and Agricultural Society of Scotland**

**The Scottish Estates Business Group**

**The Scottish Forestry Trust**

**UPM Tilhill**

## COMMITTEE MEMBERSHIP

**Professor Gavin McCrone CB, FRSE**, Chairman. Former Vice-President and General Secretary RSE.

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**Professor Jeff Maxwell OBE, FRSE**, Vice-Chairman. Former Director, Macaulay Land Use Research Institute.

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**Professor Roger Crofts CBE, FRSE**, Secretary. Former Chief Executive, Scottish Natural Heritage; Chairman, Plantlife International; Non-Executive Director, Scottish Agricultural College and The National Trust for Scotland; Honorary Professor, Universities of Aberdeen and Edinburgh.

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**Dr Andrew Barbour**, Forestry manager, Atholl Estates; Member, Forestry Commission's Regional Advisory Committee; Vice-Chairman, Deer Commission for Scotland; Farmer at Glen Fincastle.

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**Dame Barbara Kelly DBE, DL**, partner in a farming enterprise near Dumfries; President, Southern Uplands Partnership; Convener, Millennium Forest for Scotland Trust; Convenor, Crichton Foundation; Trustee, Royal Botanic Garden Edinburgh.

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**Professor Karl Linklater FRCVS, FRSE**, Former Principal and Chief Executive, Scottish Agricultural College.

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**Mr Drew Ratter**, HIE Board member; Convenor, Crofter's Commission; Member, Scottish Consumers' Council; Crofter in Shetland; former Shetland Islands Councillor.

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**Mr Derek Reid**, Chairman, Harris Tweed Textiles; Visiting Professor of Tourism, University of Abertay; former Chief Executive, Scottish Tourist Board.

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**Professor Bill Slee**, Science Group Leader, Socio-Economics Research Group, Macaulay Land Use Research Institute.

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In addition to the above, **Professor James Hunter CBE, FRSE**, Director of the University of the Highlands and Islands Centre for History and former Chairman of Highlands and Islands Enterprise, was initially a member of the Committee, but resigned because of other commitments. **Professor Nicholas Hanley**, Professor of Environmental Economics, University of Stirling, was also initially a member of the Committee, but due to sabbatical leave in New Zealand was not able to contribute to the work after the end of 2007. Both remained available for consultation, although it should be recognised that neither had any responsibility for the final Report.

# Inquiry into the Future of the Hills and Islands of Scotland: Summary Report

## 1. INTRODUCTION

The Council of the RSE commissioned the Inquiry in Spring 2007. This is the summary report. The full report is available from the Society.

The starting point was growing concern about the future of farming in the Hills and Islands of Scotland and the effect this was likely to have on many rural communities. This concern has been reinforced during the course of the Inquiry. In addition, other critically important themes have emerged. It is vitally important to establish an explicit policy for all of Scotland's rural areas. Allied to this, is the need for continuing public support to the area because of its comparative disadvantage and the contribution which it makes to achieving environmental, social and economic goals. There is an urgent need for an integrated approach to policy and action on the use and management of the land, including climate change mitigation and adaptation. There is a need for greater delegation of decision making to the local level. And there should be greater focus of action on those areas that have difficulty in maintaining viable communities where the sustainable use of environmental resources can provide part of the solution.

We obtained written and oral evidence from public, private and charitable organisations, and individuals. In addition, members of the Committee visited many parts of Scotland to assess the situation on the ground and discuss the issues with those who live and work there. They also visited Dublin to make comparisons with the situation in Ireland and held discussions with officials of the European Commission. To all those who provided evidence, participated in our discussions and who helped to organise our visits, we are most grateful.

We set out our proposed vision and objectives for Scotland's Hills and Islands. We focus on land use and other related economic opportunities and development. We identify the ingredients for achieving viable communities, and we conclude by identifying the changes required to Government machinery.

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## Key Issues and Outcomes

We identify the following.

### A New Approach

- 1 A new approach based on an explicit policy of achieving rural community viability is required that co-ordinates and integrates social, economic and environmental measures for rural areas; and empowers communities to use their initiatives and deliver outcomes within an overall national strategy.
- 2 The overall objective is a sustainable future for the Hills and Islands with vibrant and viable human communities; an integrated diversity of land uses; well managed natural systems and landscapes that also contribute to amelioration of climate change; development of other economic opportunities such as tourism, renewable energy and food; supported by appropriate financial mechanisms and services.



## Need for support

- 3 The Hills and Islands, like similar areas in other parts of the UK and Europe, are disadvantaged compared to lowland and more densely populated areas. But they provide vital environmental goods and services, and provide the basis for many economic activities. However, without continuing financial and other support from government, particularly for the management of land, their contribution will diminish and could be lost.

## The Land

- 4 We propose that a **Strategic Land Use Policy Framework** be developed by the Scottish Government in order to provide a more integrated and coordinated basis for action and to reduce the level of land use conflicts which do and will continue to occur. A **Land Stewardship Proofing Test** should also be developed and applied to ensure that the maximum public benefits are gained from land use decisions.
- 5 Scotland's livestock farming industry in the Hills and Islands is heavily dependent on public support. Without such support the present decline in livestock numbers will accelerate. The UK Government has proposed ending direct support when the European Union Common Agricultural Policy (CAP) is reviewed after 2013. We reject the UK Government's proposals: they would have a very damaging effect on the natural heritage and on human communities in the Hills and Islands.
- 6 Without direct support under Pillar 1<sup>1</sup>, the CAP would effectively cease to be a common policy. Pillar 1 needs to deliver explicit public benefit through 'greening' measures and modest re-coupling to allow managed grazing for non-production benefits in target areas (using Article 69 provisions).
- 7 Pillar 2 support from EU funds for Scotland is unacceptably low, and the lowest in the EU. Our farmers are seriously disadvantaged and environmental obligations cannot be met. All farmers should be able to participate in the Scotland Rural Development Programme (SRDP). Increased compulsory modulation should be accepted, provided that there is full retention of these funds in Scotland and a commensurate reduction in voluntary modulation.
- 8 Within the context of a national strategy, delivery of the SRDP will require additional funding if its objectives are to be met and should be delegated to regional bodies representative of all stakeholders, with authority to commit resources and to monitor delivery of targets.
- 9 After 2013 we urge the Scottish and UK Governments to insist that Pillar 2 funding be revised and based on Scotland's needs. Radical change in support policy and instruments for integrated land management post the 2013 CAP review will be needed to deliver the desired range of public goods and benefits, and the need to implement EU environmental directives effectively. We therefore propose an **EU Land, Environmental and Climate Change Policy**.
- 10 Crofting has much to offer in the context of rural development and strengthening of remote communities: we think that utilisation of existing legislation could do much to resolve issues of absenteeism, misuse and neglect of land, and housing need.
- 11 We support the Scottish Government's strategy to increase Scotland's land area in forest to 25 per cent, but see no possibility of achieving it unless measures are introduced to attract land out of other uses, preferably by market-led incentives, such as a carbon-trading scheme.
- 12 Climate change is a central concern: we have identified opportunities both for adapting to and mitigating its effects; there are implications for both policy and practice.

<sup>1</sup> See Glossary for definition of Pillars 1 and 2

## Stimulating Economic Development

- 13 We propose radical reform of the support structures for tourism to provide an integrated approach to marketing, development and investment at both national and regional levels through the establishment of new agencies and transfer of powers and resources from existing ones.
- 14 New natural heritage designations are proposed to stimulate tourism based on sustainable use of environmental resources.
- 15 We recommend development of renewable energy facilities and mechanisms to benefit local communities.
- 16 Locally produced food can bring many benefits, but action is needed to provide locally-based food processing facilities.

## Developing Viable Communities

- 17 An explicit national policy framework for rural areas and communities is needed that embraces healthy demographic structure, economic opportunity and environmentally sustainable improvement, with formulation of new policy instruments and policy proofing of all government activity to ensure this occurs in practice.
- 18 Specific support is required for regional development in communications technologies, education facilities, road, ferry and public transport, and affordable housing to improve demographic structure and stimulate economic growth within an environmentally sustainable context.

## Refocusing Institutional Structures

- 19 The transaction costs of doing business with public agencies must be reduced.
- 20 Substantial shifts in decision-making and delivery of public resources from centrally-based agencies to regionally-based structures is needed in recognition of diversity, and a variety of potential solutions in rural Scotland, building on Community Planning initiatives already underway.
- 21 To implement the changes a more locally-based approach is necessary. Public bodies that deliver policy seem to have become more rather than less centralised. This needs to change in recognition of the diversity and variety in Scotland's Hills and Islands with both decision making and delivery devolved as far as possible to regionally based structures.

## Overview

The Hills and Islands of Scotland are in a state of flux. The decline of population that lasted from the mid-19th to the mid-20th century has been reversed. These positive demographic changes mask much variety, with some areas experiencing rapid growth and others significant decline. In the Hills and Islands natural resources are still the base on which the area's prosperity rests. The traditional primary industries are economically less important than they once were, but the value of the land and water resources remains the foundation on which a range of economic activities are built. They also provide a setting for a range of new activities and for those people who have moved into these areas to enjoy the quality of life it offers.

This social and economic transition has not taken place painlessly. Market forces, public policy and charitable intervention have shaped the way in which a range of social, economic and environmental factors have affected the region, sometimes consensually, sometimes in

conflict. Significant changes in recent years have forced a need to rethink the future for these areas. Over all areas of policy and practice, climate change now casts its shadow. At the same time, major changes in the CAP have been implemented and others can be expected. The old model of forestry and its policy support system has been overhauled. Factors, such as the strength of the pound, the price of oil and the 'credit crunch', impact in particular ways on different sectors of the economy of the Hills and Islands.

The uncertainties of the present provide an opportune time to take stock. What will be the consequences of recent economic shocks on the Hills and Islands of Scotland? Is the blend of current and emergent policies appropriate to address present and future needs? There can be little doubt that the natural resource base that has underpinned past changes will also influence future opportunities; but the productive uses of land now compete with environmental demands to shape final outcomes. Perhaps more than with any other resource, rural land can provide public benefits for which the farmer, crofter or forester may not be adequately rewarded. This ensures a role for policy to steer these changes. We share the Scottish Government's desire to ensure fit-for-purpose policy and sustainable economic growth. We offer the Report of our Inquiry and this Summary as a contribution to that debate.

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## 2. AN INTEGRATED APPROACH TO SCOTLAND'S RURAL AREAS

We consider that a fresh approach is needed for policy not only in the Hills and Islands, but in the rural areas of Scotland as a whole. This needs to recognise the attributes of the area that are valued by society and set clear aims that would define policy objectives, changes in operation of government organisations, and introduce some new institutional structures.

### An Overarching Rural Policy

We propose an overarching policy framework for the Hills and Islands, and for rural areas more generally. This comprises identifying aims and agreeing a series of policy objectives to achieve them.

#### Our proposed aims are as follows:

- the **socio-economic well-being of people**, those who live there, those who have kinship and other connections to these areas, and those who visit them but live in other parts of Scotland and further afield;
- **the sustainable and productive use of the land** and the maintenance of its intrinsic values for **conservation of biodiversity and landscape**;
- the **amelioration of global climate change** made through the sequestration and long-term storage of carbon and other greenhouse gases, and the potential to achieve carbon neutrality from land uses;
- the **sustained evolution of the cultural heritage**, a part of which is the outcome of the interaction between land and people and the maintenance of a diversity of lifestyles; and
- improved access to the land by the wider public and its use for **recreation, and improvement in health and quality of life** for all.

**The overall aim must be a sustainable future for our Hills and Islands with vibrant and viable human communities; a fully integrated diversity of land uses; and stewarded by owners and tenants with responsibility for delivering well managed natural systems and landscapes. It must also contribute to the amelioration of climate change; development of other economic opportunities such as tourism, renewable energy and food; and must be supported by appropriate financial mechanisms and services, with a diversity of people and places providing a rich inheritance and a dynamic future.**

We hope that such a vision can be widely supported by all of the communities of interest and be adopted by the Scottish Government and the Scottish Parliament as a basis for decision making and resource allocation for the Hills and Islands. In order to chart progress, we have identified a series of objectives and outcomes in the full Report that could be used to evaluate both current and new policies.

**Recommendation 1: The Scottish Government, its agencies and local councils should use our proposed objectives and outcomes as a basis for developing new policies and incentives for rural Scotland and in particular for the Hills and Islands.**

### **Maintaining the Viability of Rural Communities**

For many years, successive Governments have had an implicit policy objective to retain population in the remoter areas of the mainland and on the islands, and to support the viability of their communities. In our view, **this aim should now be made explicit** to guide both policy and action. There will be cases where this aim can only be achieved at disproportionate cost. Nevertheless, it should be the objective of policy to stimulate investment to make communities as self-sustaining as possible, recognising that allowing them to decline may only increase the degree to which they will require support in the future. We consider that market forces on their own have not in the past, and will not in the future, result in the achievement of this aim.

We are surprised that this has never been an explicit policy objective, although the activities successively of the Highlands and Islands Development Board (HIDB) and subsequently Highlands and Islands Enterprise (HIE) for the Highlands and Islands have sought to achieve it. It is notable that similar policies have not applied to the rest of rural Scotland, and indeed successive governments have failed to encourage integration of social and economic development there through the enterprise network. Other bodies have social and community responsibilities, but these are not clear, particularly in the light of the abolition of Communities Scotland. We consider that a more integrated approach to rural areas is essential and urgent.

**Recommendation 2: The Scottish Government, its agencies, and local councils should have an explicit policy to achieve and maintain community viability in the remoter areas of the mainland and on the islands.**

### **Adopting an Integrated Approach to Land Resource Use**

Within this broader policy framework, a fresh approach is also needed for land resource use. The land and natural resources of the Hills and Islands are of immense value to society. They provide the bedrock on which social and economic development is based. They create opportunities for achieving viable communities, are sources of economic activity, and provide a range of environmental and cultural benefits. The use and management of land has, therefore, provided the main focus for our Inquiry.

### *Multifunctional use*

Land in the Hills and Islands has a number of potential uses. Food production, particularly through livestock production, is important in much of the area and is also an important part of Scottish agriculture. Biodiversity conservation, particularly in specially protected areas, is a significant activity and will remain so to meet international and EU obligations. Managed grazing by sheep and cattle is important in maintaining the quality of species and habitats, and landscape diversity. Landscape is a key resource for the visitor industry, for lifestyle migrants and for those already living there.

Management of land is important for all these reasons, as will be the management of water supply and water quality to meet new EU obligations. Sporting and recreational management are significant activities in many parts of the Hills and Islands, bringing in substantial income and jobs, but they also impact on the natural heritage. Forestry has been a major use of land, especially on the mainland, for some decades. The proposed increase in woodland cover from 17 per cent to 25 per cent of the land area of Scotland under the Scottish Government's Forestry Strategy will mean conversion of land from other uses, changing the landscape and associated habitats. Management of land for renewable energy production is an issue of growing importance, if Scottish Government and EU targets are to be met. But it also impacts on the environment and the social and economic life of communities. In addition, climate change now raises critical issues for land management, both to mitigate the effects of change and to adapt to those changes that are inevitable.

### *Resolving conflict*

The market itself will not produce optimum solutions that include provision of public benefits. Furthermore, existing policies of government are predominantly sector based with little or no integration. It is essential, therefore, that the Scottish Government takes a more active role in developing approaches to resolve conflicts in land resource use, through the development of integrated policies, new guidelines and, where possible, devolution of decision-making to the local level. This should take the form of a ***Strategic Land Use Policy Framework***. There are many examples of good practice in integrated planning and delivery, such as the river catchments plans for the Dee and Tweed, and land use planning in the Cairngorms National Park.

The resolution of many of these issues also has a direct bearing on the design and implementation of the Scotland Rural Development Programme and on the way funds should be used following the 2013 review of the CAP.

**Recommendation 3:** The Scottish Government, working with all relevant parts of government and key stakeholders, should develop a ***Strategic Land Use Policy Framework***: an overarching integrated policy framework for the use and management of the land resources of Scotland to deliver a range of products and non-market public benefits, a policy that facilitates the resolution of conflicts in the use of land, and flexible enough to deal with the considerable volatility in prices of primary commodities such as energy and food.

**Subsidiary Recommendation 3a:** The Scottish Government should review all relevant legislation and propose modifications to conform with the new policy framework.

**Subsidiary Recommendation 3b: Once the strategy is complete, all relevant parts of government, central and local, should review and align their relevant plans to the new strategy.**

*Land Stewardship Proofing Test*

We advocate a more explicit recognition of the multiple benefits that can arise from land use and the adoption of some broad principles that reflect the importance of its sustainable use, minimising its impact on climate change, and securing the maximum benefit to the nation.

It will be essential to ensure that current and potential new policies can meet as many objectives as possible. To achieve this, we propose a **Land Stewardship Proofing Test** for the integrated delivery of food, biosecurity, biodiversity and landscape conservation, climate change adaptation and mitigation, water management and recreational access. We identify a series of criteria to be used in applying the test as follows:

- 1 Land use should be sustainable<sup>2</sup>, multifunctional, and benefit present and future generations;
- 2 All land use decisions should be based on an evaluation of its sustainability based on thorough knowledge and understanding; and, wherever possible, contribute to the mitigation of, and/or adaptation to climate change; and
- 3 Where conflicts of land use arise, the land use that best meets agreed sustainability criteria, and delivers most public benefit should prevail.

**Recommendation 4: All government bodies in Scotland, central and local, before determining policies, actions and financial allocations, should use a *Land Stewardship Proofing Test* and associated criteria to assess their efficacy to deliver the widest range of public benefits.**

The major question remains: how should our proposals on a **Strategic Land Use Policy Framework** and a **Land Stewardship Proofing Test** be implemented? We do not advocate a rigid blueprint for the use of the land, nor do we imply that there should be a national plan for the land. And we are firmly against all land use decisions being brought within the Town and Country Planning system. There is no simple solution. But once the principles of the strategic framework and the allied proofing test are agreed by the Scottish Government, it will be necessary to develop proposals for their implementation. Key components should be: principles for achieving maximum public benefit; the definition of synergies between different land uses; identifying policy imperatives; and developing a new approach for dealing with conflict. In addition, we urge the Scottish Government to adopt transparency in decision-making, especially in those contentious circumstances where land use conflicts exist or are inevitable. **We recognise that there will have to be trade-offs between different demands to secure agreement, and we consider that this is best achieved by identifying the maximum public benefits.**

<sup>2</sup> In this context, we define sustainable as delivering social benefits, economic viability and employment opportunities, and the care and enhancement of the natural resource in the full meaning of the Brundtland definition

### ***Land not in receipt of public funds***

There is a great deal of land that is not in receipt of government support where the market may not always provide the public benefits sought. In order to achieve these benefits and to ensure that owners of all land resources are encouraged to play their part, over and above the regulations that apply to designations, there should be codes of land use practice in relation to biodiversity and landscape conservation, climate change adaptation and mitigation, and biosecurity that all land holders should apply irrespective of whether they are in receipt of public resources. This will require bringing together and rationalising existing codes of practice that provide a set of standards for managing all of Scotland's land resource. All land holders should be encouraged to produce a plan to meet these standards and receive formal accreditation for doing so. The aim would be to make monitoring of compliance with these standards both simpler and more effective.

**Recommendation 5: The regulations and codes of practice for the use of land resources should be reviewed and rationalised to provide a single set of standards for environmentally sustainable management of Scotland's land resources.**

### **The Case for Public Support for Land Management**

Many of the public benefits to be delivered from the use of land will depend on public funding. We examine this in detail in the full Report, particularly as it applies to combating climate change, maintaining and enhancing biodiversity, ensuring food security and biosecurity, and alleviating rural social disadvantage. Because such benefits are not reflected, or are inadequately reflected, in the prices that farmers, foresters or other land managers receive, they are in economists' terms 'externalities' or comprise examples of 'market failure'. How much land managers should be supported to provide them is a difficult question, depending on how much they are valued and the opportunity cost of their provision. They cannot and should not be funded regardless of cost, and people will have differing views on their value. It is therefore for government to decide the amount of support that is justified.

The House of Commons Environment, Food and Rural Affairs Committee in reviewing *The UK Government's Vision for the Common Agricultural Policy*, makes the point that: "the only long-term justification for future expenditure of tax-payers' money in the agricultural sector is the provision of public benefits. Payments should represent the most efficient means by which society can purchase the public 'goods' – environmental, rural, social – it wishes to enjoy"<sup>3</sup>. We support this view.

**We urge the Scottish Government in its discussions with the UK Government and the European Commission to take into account our arguments in favour of continuing public support for land management in view of the many public benefits that can be achieved.**

### 3. DEVELOPING LAND-BASED POLICIES AND PRACTICE

#### Agriculture

The future viability of agriculture in the Hills and Islands is a major concern. Many agricultural units in the Hills and Islands are not viable without financial support from the CAP and off-farm income. With rising costs, net incomes are expected to deteriorate further. Prices are highly volatile and are likely to remain so. Continuing financial support to maintain viable businesses and deliver a range of public goods will therefore be essential. The number of livestock in the area has declined significantly and some land has already been abandoned. Both of these trends are likely to continue even with the current levels of financial support and will accelerate if it is removed.

In the full Report we review the structure of farming and the production systems in the Hills and Islands, the forces driving change, and the existing policy support measures. Ruminant livestock are one of the very few ways that vegetation from hill and island resources can be converted into food. We also regard the management of Scotland's rural landscape and biodiversity, issues relating to climate change, and the preservation of viable rural communities as providing a strong case for maintaining livestock agriculture in the Hills and Islands. There may not be agreement on the relative importance of these various factors, but taken together we are firmly of the view that they justify a general scheme of direct support. However, we conclude that agriculture in the Hills and Islands must shift from a largely production-based activity to one that is multifunctional, delivering food, biodiversity, landscape quality, climate change mitigation, other environmental goods and services, and biosecurity. The basis for support to agriculture will need to reflect these objectives more than it does now.

#### *Agriculture and the environment*

To many farmers and other observers, the high quality scenery of rural Scotland has long been regarded as a by-product of the type of farming practised. Low-intensity farmed landscapes have become important for public recreation, as is implicitly recognised in Section 1 of the Land Reform (Scotland) Act 2003 that gives a right to roam. We acknowledge the environmental benefits that have accrued from the operation of the agri-environment schemes, some of which have now have been incorporated into the new SRDP. However, we are critical of the number of these schemes, their under funding, their lack of continuity and flexibility, and the involvement of too many government organisations and agencies. We expand on each of these issues in the full Report and hope that our observations will be helpful in the further development of the SRDP.

For biodiversity and landscape management, experience and scientific analysis demonstrate that a level of managed grazing by herbivores is required. A combination of sheep and cattle is preferred. This will be difficult to achieve if the present decline in the number of cattle and sheep continues. The best way to reverse this situation is through support for grazing management. There is now sufficient knowledge from work undertaken jointly by SAC, SNH and the Macaulay Institute to provide management guidance on the appropriate levels of grazing for most habitats; this needs to be put into practice for those most needing protection.

The delivery of all aspects of environmental care is an essential component of agricultural management and it will require continuing public support. Should this support not be forthcoming, prove inadequate, or continues to be based on compensation for income foregone, there is a risk of reduced environmental care and environmental damage. This could be further exacerbated if changes in product prices were to lead to the pursuit of more intensive agricultural production.



**Recommendation 6:** In the forthcoming EU negotiations the Scottish Government should, as a priority, press for the resources available for agri-environment programmes to be substantially increased post 2013 to a level that allows all farmers the opportunity to participate in achieving enhanced levels of biodiversity, climate change mitigation, improved water management and flood mitigation.

**Subsidiary Recommendation 6a:** The agri-environmental schemes should be substantially simplified in construction and administration.

**Subsidiary Recommendation 6b:** Agri-environmental schemes should have a substantially longer lifespan, so that the benefits to the environment can be realised in perpetuity, and changes of practice detrimental to the environment after cessation of grants should result in repayment of support.

**Subsidiary Recommendation 6c:** The Scottish Government's environmental agencies should identify those areas of the Hills and Islands requiring grazing and determine practical means of its implementation by land managers.

### *Financial performance of farms*

In the full Report we review the factors affecting the financial performance of farms, their income and return on capital, profitability, subsidy dependence, and a range of unforeseeable impacts. These include animal disease, strength of the pound, energy costs, and the recent rises in cereal costs resulting from drought, the switch to biofuels and growing demand. There is also uncertainty and anxiety about the proposed reduction in protection as part of the Doha negotiations on trade and the potential impact of large increases in imported beef from South America.

We share the EU Agricultural Commissioner's view that it is essential to maintain a European livestock industry, not only for environmental reasons and in the interests of the rural economy, but also for food security. Agriculture in the Hill and Islands accounts for 58 per cent of Scotland's beef and 78 per cent of sheep output<sup>4</sup>. Conditions vary greatly throughout these areas, but from our evidence and visits we have concluded that even on the best land in Aberdeenshire, Highland Perthshire, Islay, Orkney, and the Southern Uplands, livestock farmers could not continue with anything like present levels of production if direct support were removed.

**Farming in the Hills and Islands, at least in the greater part of the area, requires support if it is to yield a positive income at all; and without such support it could not continue to operate as it does now or provide wider public benefits. There is a serious income crisis and, despite recently improved market conditions, a more favourable exchange rate and the development of organic and local food, the overall financial situation is bleak. There are some opportunities to diversify, but these are limited and not available to everyone. The survival of this sector of farming thus depends both on a sustained upturn in prices and the continued provision of public support.**

It is for these reasons that we find ourselves in complete disagreement with the UK Government's policy, as set out in *A Vision for the CAP*, that direct support for agriculture from the CAP should be ended after 2013<sup>5</sup>. We understand the UK Government's objective for achieving a more competitive agriculture, but believe that hill and island agriculture in Scotland and in similar parts of the UK and the EU, with their comparative disadvantage,

<sup>4</sup> Figures supplied by the Scottish Government, Analytical Services Division of RERAD, June 2007

<sup>5</sup> HM Treasury/DEFRA, *A Vision for the Common Agricultural Policy*, December 2005

cannot survive without public support for agriculture and land management. We are astonished that such a proposal has been put forward to the EU without assessing the implications for farming in the different parts of the UK or discussing it with the Scottish, Welsh and Northern Ireland administrations. It seems unlikely to be acceptable to other Member States but, if it were, we consider that it would be profoundly damaging not only to hill and island agriculture but to the welfare of the communities in these areas.

If direct support were ended, it might not undermine the viability of agriculture in the more fertile parts of Europe. Indeed the thinking in the UK Government paper seems to be based on the general case for free trade: that the more efficient units survive and those that cannot compete can be replaced by less costly imports from abroad. This argument, when applied to agriculture, pays scant regard to food security. However, the paper tempers this approach by saying that any support then given would be for public goods, such as maintaining the quality of the environment. But, as is shown later in this report, such payments (Pillar 2) vary greatly between EU countries and do not provide a basis for fair competition, with UK farmers receiving much less than their counterparts in other countries. To make this the sole method of support, would make the system extremely bureaucratic and would require a huge uplift in payments, if hill and island agriculture on anything like its present scale was to be maintained. This applies not only to Scotland but to Wales and the North of England as well. The European Commissioner has argued that, without support, much of Europe's livestock farming would be unable to compete with South American imports and that a system of direct support is therefore necessary<sup>6</sup>. We agree with that view.

### ***Single Farm Payment (SFP)***

At present, EU Member States can continue to choose whether to pay the Single Farm Payment on a basis of historical income received by the farmer in 2000/02 or on an area basis. A number of countries, including Scotland and Ireland, have chosen the former, others, including England, the latter. We agree that a move to an area-based system of payment for the period after 2013 will not only be inevitable but also desirable, and that the justification for the payment should relate to the public benefit that farmers in active agriculture will be expected to deliver. The payment should, therefore, be tied to a specific area of land rather than to an individual.

**Recommendation 7: The Scottish Government should begin to plan for a change to make the Single Farm Payment on an area basis as soon as possible and consider doing so in phased steps before 2013, to ease what is likely to be a difficult change and recognising that a simple shift to a flat rate area-based payment would be illogical and inappropriate.**

**Subsidiary Recommendation 7a: It is essential that the Single Farm Payment is attached to the land and reflects the cost to the land manager of the public services that will be expected to be delivered from it.**

There are, however, several important questions arising from such proposals. On what basis should the payment be calculated? Whatever system is chosen it will inevitably result in a redistribution of the SFP fund and any change should be implemented in a degressive fashion. It is a reason for starting the process before 2013. How will active agriculture be defined? We think agricultural outputs must remain a significant component of the land management activity to qualify for support. To whom should the payment be made? Our preference would be for a system that ensures that those responsible for land management are also unequivocally

<sup>6</sup> See Mrs Marian Fischer Boel's evidence to the House of Lords European Union Committee 6 December 2007.

responsible for delivering the public goods. Who should in effect own the SFP? As an area-based payment can it any longer be regarded as a capital asset to be owned – is it not simply an income stream arising from work undertaken to meet specific agreed public good obligations?

All of these questions and the implications arising from them could have far-reaching consequences, particularly for those who currently own the SFP, and who might at some point have expected to realise capital from it. There are many practical and legal issues that will also require resolution.

**Recommendation 8: We urge the Scottish Government to commission research to inform decision making and assist in the resolution of the difficult issues arising from the conversion of the SFP to an area-based payment so that an effective and transparent scheme can be put in place to deliver the public goods that are required.**

### *New entrants*

It is also important to provide greater encouragement to new entrants into agriculture: they will be the life blood of the industry, and provide the innovative flair that will be needed for the future. Since the SFP is currently not tied to the land, new entrants either buying or taking the tenancy of a holding have no automatic access to the SFP since there is no national reserve. This is inequitable and puts new entrants at a serious financial disadvantage in acquiring working capital and constructing a viable business plan. The SFP also delivers a set of goods and services through cross compliance that have environmental and welfare benefits. Holdings that do not receive the SFP are not obliged to meet these obligations. In addition to achieving equality of opportunity, we conclude that it is in the public interest that any new system that determines the basis of the *Single Farm Payment should enable new entrants to have ready access to it.*

### *Article 69*

The CAP Health Check proposes that Article 69<sup>7</sup> is made more flexible so that funds to support a particular scheme need no longer be taken by top slicing payments for that sector alone. Application of this provision to retain grazing of the Hills and Islands for habitat and landscape benefits would enable a scheme for sheep, in addition to that already in place for cattle, to be funded by taking SFP from other sectors. Given the much better prices now applying to cereals and some other sectors, we think that such an arrangement should be considered prior to the more substantial changes that are envisaged in changing the SFP to an area basis and revising the basis on which the Less Favoured Area Support Scheme (LFASS) payment will be made. However, in the longer term, if the SFP is moved to an area basis, some flattening of its payment could also provide additional support for the hill and island livestock sector.

**Recommendation 9: The Scottish Government should support the proposed greater flexibility for Article 69 and consider applying it to provide an element of managed grazing by sheep and cattle to achieve a range of public goods.**

### *Defining public benefit*

To provide a clearer and more defensible justification for the continuation of Pillar 1, the European Commission is presently considering the replacement of Good Agricultural and Environmental Condition (GAEC) after 2013 with a clearer definition of the public benefit

<sup>7</sup> Council Regulation (EC) No 1782/2003, which will become Article 68 in the proposed Council Regulation COM(2008) 306 final

that the SFP is to provide. This would probably link the SFP more closely to environmental benefits. But a clear definition of benefit is not the only issue here; it is also necessary to ensure that it is properly monitored and enforced. We think that this could be done more simply by requiring a whole farm plan for each unit in receipt of public funds (as required by the SRDP) and specifying the outcomes that are to be delivered. We recognise the difficulties of measurement, but it is important to have a system that is defensible to the taxpayer. There is plenty of experience of defining and monitoring outcomes.

**Recommendation 10: A clearer definition of the public benefits paid for by the SFP is required for the period after 2013: the Scottish Government should take steps to ensure that these benefits are fully understood by land managers and by the public, and that they are properly enforced.**

**Recommendation 11: There should be a requirement for a whole farm plan for each unit in receipt of public funds to define the public good outcomes and the management protocols to achieve them.**

We consider that in the longer term more fundamental change is required to the CAP, if the integration of land management is to achieve food, environment and climate change objectives. To achieve this, we propose a new *EU Land, Environmental and Climate Change Policy*. We provide more detail on page 30 in this Summary Report.

### **Modulation**

The CAP Health Check proposes raising the rate of modulation from the present 5 per cent to 8 per cent from 2010 to 2013<sup>8</sup>. Funds raised should be retained by the Member State, rather than, as with the existing modulation, suffering the 20 per cent deduction and possible transfer to other Member States. The 20 per cent deduction would, however, still apply to the existing 5 per cent rate. Unlike voluntary modulation, which applies to all land holdings, compulsory modulation applies only to agricultural holdings with income above 5,000 Euros. Many croft holdings will therefore be excluded, which we consider helpful, although SFP payments to crofts are generally very small.

It is further proposed that the increased rate of compulsory modulation should be offset by a reduction in voluntary modulation. But the reduction in voluntary modulation will not be an exact offset for the increased compulsory modulation, because of the 'franchise' the exclusion of small farms from compulsory modulation. This proposal is acceptable and beneficial if it helps to keep farming throughout the EU on a more equitable competitive basis until 2013. After that date, an opportunity may arise to renegotiate the EU contribution to Pillar 2 support among Member States away from the current historical basis, which has no relevance to present and future requirements.

**Recommendation 12: The Scottish Government should accept the proposed increased rate of compulsory modulation provided that it is compensated for by a reduction in voluntary modulation and that the funds raised in Scotland are entirely retained within Scotland.**

The European Commission proposes that the increased funding from the higher rate of modulation should be used for four major challenges:

- Measures to address climate change;
- Renewable energy;
- Water management; and
- Biodiversity promotion.

There is also recognition of the importance of forestry in sequestering carbon and of the need to assist and promote biomass heating systems. The expectation is of a redistribution of funding as part of the SRDP package to facilitate these major changes. We strongly support this proposed approach. There is an urgent need for a better evidence base on the relative cost-effectiveness of alternative land-based greenhouse gas (GHG) mitigation strategies and a need to create institutions to deliver cost-effective solutions.

**Recommendation 13: The Scottish Government should support the European Commission's proposals to focus additional funding arising from increased compulsory modulation on climate change mitigation and adaptation.**

### *Less Favoured Area Support Scheme (LFASS)*

In addition to the Single Farm Payment, hill and island areas in agriculture receive support through LFASS payments. These are derived from past policies that recognised the additional difficulties of farming in remote areas and on land of indifferent quality. The Less Favoured Area (LFA), as presently defined, covers 85% of the agricultural land area of Scotland. While taking account of the biophysical nature of the land resource, its objectives need to be updated to focus on delivery of a range of public benefits, particularly those relating to the environment and climate change.

The largest part of Pillar 2 funding for agriculture in Scotland (over 50 per cent) is taken up by LFASS. Officials of the European Commission have told us that they see a case for moving this to Pillar 1 after 2013, on the grounds that it is essentially an agricultural support measure, similar to SFP but for disadvantaged areas. There is force in this argument, especially after SFP is moved to an area basis for payment. LFASS could then be seen simply as an enhanced rate of SFP for disadvantaged areas. How the transferred LFASS should be funded would, however, be an issue, as Pillar 1 is wholly EU funded and the Scottish Government at present funds the greatest part of Pillar 2.

The Macaulay Institute undertook a major study of LFASS on behalf of the previous Scottish Executive. This showed that livestock farming throughout the LFA was heavily dependent on LFASS. Where farming is a full time occupation, any diminution in LFASS will have greater consequence than where farming is part time<sup>9</sup>. This matter therefore has to be approached with care. Officials of the European Commission have told us that they see a case for making LFASS linked more to the environment and gearing it to soil type, yield and climate.

<sup>9</sup> Gerald Schwarz et al. Less Favoured Area Support Scheme in Scotland: Review of the Evidence and Appraisal of Options for the Scheme Post 2010, A Report for the Scottish Executive, December 2006

The recent EC discussion paper on the future of LFASS illustrates the current thinking and provides options as to how the basis of LFASS might be changed<sup>10</sup>. We think the options based on biophysical criteria to be applied across Europe are inappropriate for Scotland, particularly those related to climate. We are attracted to the idea of High Nature Value (HNV) farming (option 4), but recognise the problems of classification and the delineation of HNV areas, as well as the administrative burden of such a scheme in the short term. While we recognise that any change in the current basis of funding could involve significant redistribution, we believe this to be necessary to enable the appropriate public benefits to be secured and, if LFASS is to remain within Pillar 2, to reflect the purpose for which Pillar 2 payments are made.

**Recommendation 14: The criteria for support for land defined as Less Favoured Area should be changed to give greater emphasis to the delivery of environmental and climate change public benefits rather than solely agricultural production.**

### *Pillar 2 funding*

The level of funding of Pillar 2 is crucial to the delivery of public benefits, but the contribution from the EU for Scotland is less than in other parts of the UK. While this might be explained by differences in quality of land classified as agricultural, there are much greater differences with other Member States. Scotland is planned to receive £7.4 per hectare per year for the period 2007 to 2013, compared to £12.7 in England, £54.3 in Ireland and £121.8 in Austria (see the full Report for details of other EU countries, Table 17). There are historical reasons for this, but **it must be a priority in the review of the CAP for the period after 2013 to secure a level of funding that is based on need and comparable with other Member States as one of the most essential issues for the Scottish Government to resolve.**

The House of Commons Environment, Food and Rural Affairs Committee have argued that it is so important to increase EU Pillar 2 funding, that the UK Government should, if necessary, agree to some erosion of the UK's budgetary rebate to achieve this<sup>11</sup>. We agree with this view.

**Recommendation 15: The Scottish Government should make it clear that it does not accept the present inadequate EU funding of Pillar 2, which puts Scottish farmers at a serious disadvantage compared with their counterparts in other Member States, and press the UK Government in the forthcoming negotiations on the EU budget to get it increased, even if some erosion of the UK's rebate is necessary to achieve this.**

### **Crofting**

As a system of land tenure, crofting provides a unique contribution to a large part of the Hills and Islands through the use and management of the land, its contribution to biodiversity and landscape diversity conservation, opportunities for combining a variety of occupations, and through its social structure. Crofting is regulated by the Crofters Commission, and is also subject to the Scottish Land Court. The Commission exercises wide powers and discretion, but for the purposes of this report, these contribute to three main outcomes: physical occupation of the land, positive use of the land, and shared management of a resource held in common.

<sup>10</sup> Review of the 'Less Favoured Areas' Scheme. European Commission, 30 June 2008 ([http://ec.europa.eu/agriculture/consultations/lfa/consultationdoc\\_en.pdf](http://ec.europa.eu/agriculture/consultations/lfa/consultationdoc_en.pdf))

<sup>11</sup> House of Commons Environment, Food and Rural Affairs Committee, Fourth Report of Session 2006-07, The UK Government's "Vision for the Common Agricultural Policy". HC 546-1, 23 May 2007.

The recent Inquiry on Crofting and recent legislation demonstrate the Scottish Government's support for crofting. We welcome this support. We share the same vision for crofting as that contained in the recently published Final Report of the Committee of Inquiry on Crofting – *“growing, prosperous, inclusive and sustainable crofting communities which enjoy the capacity and the power to develop their own strategic plans and to pursue those with vigour subject to legitimate national interests...”*<sup>12</sup>. We agree that a crofting system, adapted to modern circumstances, has much to offer in the part it can play in strengthening and maintaining rural communities. The main issues for us are: the potential to create new crofts; the need to address absenteeism, involving neglect and misuse of the land; the need to ensure that the arrangements for croft housing are compatible with a general need to provide affordable housing; and the need for sustained public funding to support crofting as a practical way of maintaining and enhancing sustainable management of land in the remoter parts of Scotland.

### ***New crofts***

Prior to the Crofting Reform etc. Act 2007, crofting was confined to the six former Crofting Counties. The Act extends the possibility of crofting to the remainder of Scotland. The advantage in being a croft tenant lies in the enhanced rights that crofters enjoy as against agricultural tenants, i.e. the tenancy is for life and may be bequeathed to a family member. We see potential benefits in this approach, as the powers to operate a regulated system of land tenure do not exist anywhere else.

**Recommendation 16: The Crofters Commission should, through appropriate procedures, and with the support of Scottish Ministers, select areas, and use their powers under legislation, in partnership with others, to pursue change within the areas selected, through the creation of crofts and other measures.**

### ***Absenteeism, neglect and misuse of land***

The Crofting Reform etc. Act 2007 allows the Crofters Commission to act where crofts are misused or neglected. We support the view that action is required, but recognise the potential conflicts that may arise within a community. To ensure that all crofts will be occupied by an active, resident crofter, the Committee of Inquiry on Crofting proposes a strengthening of the legislation by imposing housing burdens (i.e. a residency burden). We take the view that action should be driven primarily by crofting communities themselves based on their aspirations for local crofting development, recognising, for example, the community benefits associated with the shared management of natural assets and the regulation of common grazings by Grazings Committees.

We also support some form of additional incentive, which would make working with livestock, or some other land-based activity, worthwhile. Some limited re-coupling of Pillar 1 support (using Article 69 provisions) could be used to encourage the keeping of livestock for non-production benefits. In addition, a more flexible use of SRDP management options would be required, along the lines we suggest for delivering agri-environment outcomes.

**Recommendation 17:** The Scottish Government, as part of its revised approach to crofting, should ensure that powers to overcome neglect and misuse of crofting land are fully utilised, particularly where crofting communities have agreed local community development plans.

### *Croft housing*

Over the years, additional croft housing, and improved housing, has been stimulated by the Croft House Grant Scheme. To build new houses crofters can de-croft small parcels of land on their holding for such a purpose. What is known as the statutory house site (the actual croft house) carries an absolute right of de-crofting. Once built, the crofter is then free to sell the house, taking it beyond the reach of crofting legislation. This practice has been criticised as having the potential to undermine the concept of crofting. The Committee of Inquiry on Crofting has suggested resolving these issues by removing the absolute right to de-croft. While on the one hand, the supply of good quality housing in these areas is clearly important, on the other, good quality ground in the crofting counties is scarce. **We support current policy to explore with Grazings Committees, local authorities and others how housing need might be met, while trying to preserve good quality land and community unity.**

### *Public finance to crofting*

Support to crofting should continue at least at the present level. We are, therefore, concerned that the proposals in the EC's CAP Health Check would provide SFP support only to land holdings greater than 3 ha. There are many crofts less than 3 ha. Setting any minimum size to attract support could be damaging, and would inhibit those on small crofts from undertaking agricultural use of their crofts, in particular for intensive local food production, for example, poultry, eggs and horticultural crops.

**Recommendation 18:** The Scottish Government should ensure that the revisions to the CAP arising from the Health Check permit crofts of any size to be recipients of SFP support, and that future review of SRDP is used to increase opportunity for crofters.

### **Forestry**

Expansion of forestry has provided multiple benefits, especially economic and recreational benefits. More recently, biomass production and carbon sequestration have been recognised as being significant in the mitigation of climate change. Improved practices are rectifying the environmental mistakes of the past that had detrimental effects on landscape, water quality and biodiversity. We recognise the potential for increasing the multiple benefits of forestry. There are also strong arguments for increasing the rates of planting to maintain the supplies of timber in future decades.

### *Achieving the 25 per cent target*

We support, therefore, the Scottish Government's Strategy to increase Scotland's land area in forest to 25 percent by the second half of the century. Land availability will be a major factor, especially as biodiversity, carbon management and social and economic considerations suggest that the middle-grade land should be targeted for woodland. Inevitably, this means afforestation on current agricultural land. Consideration of the types of land from which the additional 650,000 ha required for planting would come needs further detailed consideration.



This and other issues emphasise the need for an integrated approach to land use, set at a national level, refined and delivered at a regional level, as we recommended earlier. To ensure public acceptance of any future afforestation programme, it is essential that there is a full and open debate on the mix of woodland types to be established in such a programme.

**Recommendation 19: The Scottish Government and the Forestry Commission should develop detailed proposals for implementing the 25 per cent target, including the necessary incentive regime, the type of woodland and means of identifying land for planting, and conduct an open consultation on its proposals.**

More effort will be required to bring forestry and agricultural activities together on the same farm unit as a means of achieving the planting target and greater integration of land management. The development of an agro-forestry approach should bring benefits to farmers, provided that the market potential is attractive. Short-rotation forestry might be attractive, given its potential as a biomass fuel.

**Recommendation 20: The Forestry Commission should initiate a joint study with relevant interests to examine the potential of short-rotation forestry as an integral part of farming and to recommend measures for improving integration of agriculture and forestry on working farms.**

Market-led incentive schemes, such as a carbon-trading scheme, alongside opportunities for tree planting, could contribute to climate change mitigation and we deal with these below.

## **Sporting Estate Management**

### ***Benefits***

We recognise the wide range of benefits arising from sporting estate management, especially local employment, and the considerable influence that estate management has had and continues to have on the land and its associated habitats and wildlife. There is no public funding support for this activity and many owners support management through cash transfers from other activities. It is important that the positive benefits from estate management continue to contribute to the economy and social well-being of hill and island communities within the broader framework of strategic land use policies. For example, we see a substantial potential contribution from sporting estates in climate change mitigation and adaptation.

**Recommendation 21: The sporting estate management sector should work with the Scottish Government to ensure that the sector is fully integrated into the *Strategic Land Use Policy Framework* proposed in Recommendation 3.**

### ***Accreditation***

Many landowners are proud of their stewardship, but have been reluctant to be drawn into any schemes. However, in the farming sector informal accreditation of stewardship has become more popular. There could be benefits for landowners to develop their own accreditation scheme.

## **Recommendation 22: Landowners' associations should explore mechanisms to give recognition to exemplary stewardship of land.**

### **Responding to Climate Change**

Climate change is an important reason for developing new policies, incentives and regulation in the multifunctional use and management of land that we have proposed. There are many opportunities both for mitigating the effects of and adapting to climate change. We welcome the recent report and recommendations of the Agriculture and Climate Change Stakeholder Group<sup>13</sup>. In the EU, climate change has become a major issue and one which has been identified as requiring additional action and funding from increased compulsory modulation. In the full Report we explore the possibilities for reducing the level of emissions of and increasing the storage capacity for GHGs through improved management of soil, muir burning, livestock management, and forestry. We also outline the measures necessary to control flooding. In this Summary Report, we focus on our recommendations.

### **Hill grazing management**

Evidence suggests that high levels of grazing intensity, that cause loss of vegetation, suppression of tree and shrub development, and exposure of soils to erosion, lead to significant GHG emissions from the land, especially on carbon-rich soils. As a result, stocking densities of sheep need to be carefully managed and cattle grazing should also be carefully controlled. Deer control measures are also needed in areas with organic soils that are at risk of over-grazing. The level of grazing should also take into account the need for grazing to achieve biodiversity and landscape diversity objectives. A delicate balance will need to be drawn.

## **Recommendation 23: The Scottish Government should, as part of its revised climate change policy, institute greater regulation of the intensity of herbivore grazing on carbon-rich soils. In particular, the Government should facilitate the development of sustainable deer management within a revised regulatory and incentive-based framework so that this sector contributes to the integrated land use policy proposed in this report.**

### **Tree planting**

Climate change mitigation, as already indicated, is also an additional reason for increased tree planting. Studies show that woodland could absorb up to 5 tonnes of carbon per ha per year<sup>14</sup>. It is estimated that over a full commercial rotation, new forests in Scotland over recent decades can on average accumulate net carbon of 3 tonnes per ha per year<sup>15</sup>, although during a tree's fast growing phase, the annual accumulation of carbon can be much higher than this<sup>16</sup>. Trees naturally grow on peaty podzols and peaty gleys, but new planting on these soil types would, if used, require to be sensitively handled to minimise carbon loss in the short term. No tree planting should take place on peat, and removal of standing timber should be done by using low impact machinery, with no tree stumps removed. The areas of high carbon soil, particularly deep peat, are well known and these should be protected as a strategic resource for carbon storage. There is also a need to consider the mix of woodland types to be used in new programmes of afforestation to avoid over reliance on any one species. This could help to avoid habitat fragmentation, and increased risks from pests and disease as a consequence of climate change or other causes. A robust adaptation strategy to manage risk is of supreme importance. We consider that better management of existing forests is needed, in particular, to maintain carbon storage and to increase further the potential for carbon sequestration. Continuing research to optimise the achievement of these objectives is required.

<sup>13</sup> Climate Change and Scottish Agriculture: Report and Recommendations of the Agriculture and Climate Change Stakeholder Group (ACCSG) <http://www.scotland.gov.uk/Publications/2008/05/15115150/0>

<sup>14</sup> Hargreaves K J, Milne R and Cannell M G R (2003) Carbon balance of afforested peatland in Scotland. *Forestry*, Vol. 76, No. 3, p. 299-317

<sup>15</sup> Broadmeadow, M and Matthews, R (2003): Forests, Carbon and Climate Change: The UK Contribution; Forestry Commission Information Note 48 (p4). <http://www.forestry.gov.uk/fr/INFD-62HENF>

<sup>16</sup> Magnani F., Mencuccini M., Borghetti M., Berbigier P., Berninger F., Delzon S., Grelle A., Hari P., Jarvis P.G., Kolari P., Kowalski A.S., Lankreijer H., Law B.E., Lindroth A., Loustau D., Manca G., Moncrieff J.B., Rayment M., Tedeschi V., Valentini R. and Grace J. The human footprint in the carbon cycle of temperate and boreal forests. *Nature* 447: 848-850, 2007

**Recommendation 24:** The Scottish Government should provide targeted incentives and appropriate regulation to encourage the management of existing forest and woodland to maintain carbon storage and increase further the potential for carbon sequestration, and support the necessary research to achieve these objectives.

### *Forestry biomass and climate change*

There are clear benefits for climate change moderation by increasing the use of wood and wood products for biofuels, provided they substitute for fossil fuels, especially for heating. It is a matter of some urgency, therefore, that the Biomass Support Scheme<sup>17</sup> is renewed and long-term funding put in place to encourage this market to develop and provide greater security for those taking part. To encourage development of this activity, local government could be given targets for biomass use in municipal buildings.

**Recommendation 25:** The Scottish Government should support the wood fuel industry development with long-term measures, such as a renewable heat target, rather than the current, stop/go, single-year funding regime.

There are also clear benefits in the use of timber in construction as a substitute for more carbon intensive materials, such as steel and concrete.

More generally, on forestry practice in relation to climate change, we consider that the Forestry Commission should be an exemplar through its incentive schemes and its action in the state forests.

**Recommendation 26:** The Forestry Commission should ensure that its grant schemes and its own practice in the state forests are fully aligned with the developing advice from Forest Research on climate change issues.

### *Development of carbon markets*

We welcome the Scottish Forest Strategy target to increase Scotland's land area in forest to 25 per cent by the second half of the century as a means of offsetting the emissions arising from agriculture. This will require an integrated approach to land use, and a market-based incentive scheme with positive carbon management. For example, farmers could offset livestock emissions against woodland plantation. This could best be done if a carbon-trading scheme is introduced, giving land managers clear financial benefit for carbon offsetting. The development of a carbon market that allowed forestry to receive financial credit for the carbon sequestration that it achieves could be of even greater importance, as it could change fundamentally the economics of forestry investment.

**Recommendation 27:** The Scottish Government should urge the adoption of a rigorous, market-based carbon-trading scheme that gives land managers financial benefit to encourage low-impact forest management, tree planting and other appropriate activities.

<sup>17</sup> [http://www.biomassenergycentre.org.uk/portal/page?\\_pageid=77,87245&\\_dad=portal&\\_schema=PORTAL](http://www.biomassenergycentre.org.uk/portal/page?_pageid=77,87245&_dad=portal&_schema=PORTAL)

Clearly there are a number of challenges to be met in developing a carbon-trading solution, but most of all there is a need to ensure that transparent measurement methods are available and can be independently verified. Measurement of existing and additional levels of GHGs stored in soil is intrinsically difficult and, although higher levels of sophistication give more accurate and verifiable results, they are extremely expensive and simpler solutions will need to be found. Nevertheless, we are convinced that a carbon-trading scheme is the most realistic and cost-effective way to achieve the most practical land use mitigation and adaptation practices.

**Subsidiary Recommendation 27a: Research is required to develop effective and efficient methods for calculating and verifying the retention and sequestration of GHGs in soils and vegetation.**

We are surprised and disappointed that the contribution of forestry is currently excluded from meeting the EU GHG emissions targets. This is clearly of importance in Scotland and we urge the Scottish Government to press for this to be changed. We recognise the need for greater ability to measure and verify carbon sequestered and stored, but market-based incentives would drive forward the chances of this occurring. The EU is only now incorporating climate change into the mix of issues to be addressed through the Rural Development Programmes: we consider that this should be given even greater priority.

**Recommendation 28: The Scottish Government should press the EU to change its policy on exclusion of forestry in helping to achieve its emission reduction targets and to place greater emphasis on climate change action in the Rural Development Programme.**

***Achieving an 80 per cent reduction in GHG emissions***

It is not clear what the full implications of the 80% emissions reduction target mean to the Hills and Islands. We have also been told that the soil will store four times more carbon than trees in Scotland<sup>18</sup>. It is essential that research is undertaken to address these issues and the options for meeting the targets explored.

**Recommendation 29: Investigations to set out the implications of and options for achieving the 80 per cent reduction in GHG emissions, and to define the GHG impacts of different activities, should be undertaken urgently on behalf of the Scottish Government.**

**We suggest that action by government should focus on a mix of regulatory and incentive measures:**

- voluntary codes that are based on the best available evidence of the link between climate change and land management;
- cross-compliance, particularly through the reformed CAP and the associated codes of practice which need to be revised to take into account best practice;
- policy adjustment to ensure that agricultural policies favour environmental protection over production through the Single Farm Payment;
- develop market-type mechanisms, such as carbon-trading, to encourage protection and enhancement of carbon stocks; and
- commission further research to address these issues and the options for meeting the various EU, UK and Scottish Government targets.

## *Codes of practice*

Overall, the various codes of good practice for soils, tree planting and management, and agricultural activity need to be reviewed and up dated to take into account the emerging evidence for the link between land management and climate change. Specifically, we recommend action in relation to the management of organic soils, as these are the most critical component in GHG storage and sequestration, and are also important in relation to water catchment management.

**Recommendation 30:** **New mandatory codes of practice for the use and management of carbon-rich soils, for the management of water in upper and middle areas of catchments, and for planting, managing and restocking of forests and woodlands, should be implemented within two years as an essential component of climate change mitigation.**

## **Refocusing the SRDP**

There are publicly beneficial activities that can only be stimulated with financial support. This is what we understand the new Scotland Rural Development Programme is seeking to achieve. We commend its principles and support its implementation, but consider that it is not yet adequate on a number of counts.

## *Outcomes*

**The SRDP is currently designed nationally to deliver five key outcomes:**

- Business viability and competitiveness
- Water quality
- Adaptations to mitigating climate change
- Biodiversity and landscapes
- Thriving communities

We support these national priorities, but believe that the great diversity of farming operations in the Hills and Islands, allied to the diversity of the natural heritage and the way it has been managed for centuries, requires variations in approach across Scotland. We also consider that in response to rapidly growing concern, greater emphasis needs to be placed on achieving adaptations to and mitigation of climate change.

**Recommendation 31:** **The SRDP should be revised to make greater provision for adaptation to and mitigation of the effects of climate change, especially in the light of the recent scientific evidence provided to the Scottish Government.**

## *RPACs*

The SRDP outcomes are intended to be delivered through the setting of Regional Priorities<sup>19</sup> by the Regional Proposal Assessment Committees (RPACs), agreed with stakeholders for each of the 11 regions. The structure, role and membership of the RPACs was decided following a consultation by the Scottish Government<sup>20</sup> in 2006.

There are a number of issues requiring resolution: design of the SRDP, membership and delineation of the RPACs, and the basis of future funding.

<sup>19</sup> <http://www.scotland.gov.uk/Topics/Rural/SRDP/RuralPriorities>

<sup>20</sup> <http://www.scotland.gov.uk/Publications/2006/10/09113031/8>

## ***SRDP design***

Despite an improvement in the way that the SRDP has been developed to deliver outcomes rather than outputs, its administration remains complex. While it is right to place the onus on the applicant to demonstrate clearly how he/she will deliver the necessary priority outcomes, we are concerned that the SRDP appears administratively burdensome to many land managers. Most important, we are sceptical about the extent to which all the outcomes specified will be delivered. The high costs involved in preparing proposals may well lead to only larger holdings being able to justify the effort and expenditure. A further constraint is that the application procedure is dependent primarily on having access to broadband technology.

The complexity of the schemes could be reduced substantially by using an approach based on a selection of the options that together meet one or more of the specific regional outcomes. This would properly reflect the integrated nature of land management and show how the proposal meets the priorities of the region.

**Recommendation 32: The Scottish Government should redesign and implement the SRDP within the context of our proposed *Strategic Land Use Policy Framework*.**

## ***Local delivery***

As we understand it, participation in the previous priority exercise was by invitation rather than on the basis of wider consultation. As a result, the regional elements of the plan have been over-dependent on the views of expert groups and statutory consultees. For the future, regionally-based approaches need to deliver regional outcomes to meet the wide range of circumstances around Scotland, and require to be fully inclusive of stakeholder involvement and community representation to achieve greater ownership of decisions. The RPACs should be reconstituted to make decisions and monitor outcomes on behalf of the Scottish Government.

**Recommendation 33: The RPACs should have their membership broadened to include local and regional representatives of the land using sectors, working alongside officials of the relevant government agencies. In particular, the revised and expanded RPACs should be given full delegation for the implementation of the SRDP.**

## ***Regional boundaries***

We have been told also during our visits that the areas of the RPACs are not appropriate to reflect the diversity of farming and environmental management in Scotland. We agree with this view. The delivery of environmental outcomes could be based on biogeographic regions. SNH's Natural Areas<sup>21</sup> concept is the most appropriate development of biogeographic regions. On the other hand, we recognise in relation to delivering outcomes within Axes 1, 2, 3 and 4, that a regional administrative context is also relevant.

<sup>21</sup> Natural Heritage Futures, 2002, Scottish Natural Heritage.

**Recommendation 34:** The boundaries of the RPACs should be redrawn to better reflect the diversity of land in Scotland using a biogeographic approach, such as SNH's Natural Areas, within an appropriate administrative context.

### *Basis of funding*

Under European Council Regulation (EC) No. 1698/2005, rural development policy for 2007 to 2013 is focused on four Axes, with the percentage of funding allocated to each Axis in Scotland given in parenthesis:

- Axis 1 – improving the competitiveness of the agricultural and forestry sector (14.27%);
- Axis 2 – improving the environment and the countryside (includes LFASS) (68.49%);
- Axis 3 – improving the quality of life in rural areas and encouraging diversification of the rural economy (11.55%); and
- Axis 4 – LEADER (5.57%).

The SRDP embodies all of the above Axes. We agree, in principle, with the approach taken by the Scottish Government. However, it has spread a very limited resource across all of the themes. We have already drawn attention to the woefully inadequate funding of Axis 2 in relation to agri-environment measures. Also, the funds available through Axes 3 and 4, even with the addition of enterprise funding, do not provide an adequate basis for rural development across Scotland, and certainly not in the context of the integrated rural policy approaches that we advocate in this report. For example, there is a great deal of support among communities for the LEADER programme to build capacity and enable communities to develop their own initiatives, but funding is inadequate.

Without question, additional funding is essential if the Scottish Government is serious about fulfilling its targets for the Rural Development Programme in which the majority of farmers can participate. There are a number of possible sources for additional funding: transfer through modulation and transfer of additional funds from the Scottish Government. But we recognise that the Scottish Government is already funding 70 per cent of the Pillar 2 costs and its ability to increase this must be limited, especially in the current financial climate. The major issue is the level of EU funding which needs to be addressed.

**Recommendation 35:** The funds available under the Scotland Rural Development Programme need to be substantially increased if its objectives are to be achieved and should include relevant expenditure by all government agencies.

We are also concerned about the principle on which the public funding of environmental goods and services is based. Is it to support the cost of species or habitat enhancement or to compensate for income foregone? This latter approach is questionable on economic grounds, even if expedient in the use of public monies. The flip side of the polluter-pays principle is the provider-paid principle. The basis of these principles is that the polluter should pay the costs he/she imposes on society for pollution and the provider of positive environmental gain should be rewarded by the value of the 'ecosystem services' that he/she provides to society. **We conclude that the partial use of economic principles to manage so-called external effects is unacceptable, especially where such an approach systematically under-rewards many land managers for the ecosystem services that they provide for society.**

## A Radical Change to European Funding Post 2013

The need to move to a more integrated approach to land use and rural development has become increasingly explicit in EU policy during the course of CAP reforms over the last decade and, in particular, the more recent proposals arising from the CAP Health Check. It is also evident in the recent Review of Rural Policy in Scotland by the Organisation for Economic Co-operation and Development (OECD)<sup>22</sup>. We have already made a specific recommendation concerning a clearer definition of the public benefits paid for by the SFP (Recommendation 10). We support the European Commission's thinking in relation to replacing GAEC after 2013. At present, it is clear that the SRDP is not comprehensive and fails to take into account the activities of enterprise agencies and local councils. In response to EU policies, and our longer term proposals for Scotland, a more radical, integrated and comprehensive approach is needed.

### A 'Land, Environmental and Climate Change Policy'

We support a more coherent approach to funding the whole of land management as part of EU agricultural, forestry, and environmental policies. We prefer an approach based on achieving as wide a range of public benefits as possible and delivering obligations under international and EU agreements, including climate change, biodiversity, landscape diversity, recreation and access, and water management. We consider that after 2013 there would be advantage in a radically different approach, with a new, more integrated and wide ranging EU policy instrument: a '**Land, Environmental and Climate Change Policy**'. This should not be seen as a means of saving money, but could be developed from the current elements of Pillar I and Pillar 2. It could, in the longer term, be extended beyond and outside agricultural policy, particularly if the UK Government is able to renegotiate the basis of Pillar 2 funding after 2013. We believe that this would serve the best long term interests of Scotland's rural areas and communities, as well as safeguarding its natural and cultural heritage, and contributing significantly to climate change mitigation and adaptation.

**Recommendation 36:** The Scottish and UK Governments and the EC should consider a new instrument for funding the delivery of public benefits from land management for introduction in 2013 in the form of a *Land, Environmental and Climate Change Policy* when the next review of the CAP is due to be implemented.



## 4. STIMULATING ECONOMIC DEVELOPMENT

There are a variety of opportunities for economic development in the Hills and Islands. We are concerned that too often a single solution is identified. Tourism, and more recently renewable energy, are often mentioned in this context. We recognise the major contribution made already to local economies and to the viability of rural communities by the sporting estates through rod and line fishing, grouse shooting and deer stalking. We note also the contribution that both marine and freshwater aquaculture make to rural areas, and the major contribution that commercial sea fishing makes to island economies, particularly in Shetland, and parts of the mainland. We focus on developments that have significant potential for growth and have a direct or indirect relationship to land use: tourism, energy and food.

### Tourism

In Scotland, tourism is one of the largest and most important industries. It employs in excess of 200,000 people, generates around £4 billion per annum to the economy, and accounts for 5 per cent of GDP<sup>23</sup>. In the Hills and Islands, its relative importance is even greater. Many commentators, as well as Government, regard tourism as a sector with major growth potential. There are many excellent tourism businesses in the Hills and Islands, providing amenities and levels of service which match the very best international standards. But, there are also too many businesses where standards of service are variable. We recognise the major potential stemming from the high quality of the environment. This includes the variety of the landscape, the opportunities for informal recreation and for experiencing wildlife, fishing and other sporting activity, and more generally for the improvement of health and quality of life. Nevertheless, we are concerned that VisitScotland's 50 per cent growth target by 2015 is an aspiration which is unlikely to be met unless significant improvements in service standards are achieved, considerable capital investment made in development, the season extended, and marketing is more regionalised and more targeted on key customer sectors. All this requires fundamental changes in support structures and greater prioritisation of resource allocation.

There was widespread criticism of VisitScotland's performance and focus during our Inquiry. It was claimed to be over-centralised and with too much emphasis on the successful areas rather than those requiring support. The recent reforms of the structure and the focus on national level marketing were also thought to have exacerbated the problem. These changes ignore the fact that most visitors to the Hills and Islands are from Scotland and other parts of the UK, are return visitors, and are looking for value for money.

### *Changes in tourism organisation*

Communities throughout the Hills and Islands have reported to us, both orally and in their submissions, frustration and annoyance at a lack of funding or professional tourism support from VisitScotland. Three key issues emerge. First, there is the fundamental importance of closely integrating strategy, investment, marketing and research in formulating and driving tourism policy. Secondly, decision-making needs to be decentralised to regional and community levels. Finally, the role of Government and its agencies has to be clearly specified in setting realistic objectives, and in ensuring that the tools and structures exist, or are created, to allow these goals to be achieved. For this to be realised, we propose a new institutional structure for tourism in Scotland.

<sup>23</sup> Tourism in Scotland 2006. Visit Scotland. ([http://www.visitscotland.org/tourism\\_in\\_scotland\\_2006\\_national.pdf](http://www.visitscotland.org/tourism_in_scotland_2006_national.pdf)); The Tourism Prospectus: Investing for Growth. 2007, Visit Scotland ([http://www.visitscotland.org/tourism\\_prospectus.pdf](http://www.visitscotland.org/tourism_prospectus.pdf))

**Recommendation 37:** Given the levels of criticism of VisitScotland, the Scottish Government should radically change the institutional structure for tourism by establishing a new national tourism organisation, with combined responsibility for development, investment, marketing and training, and *Regional Tourism Boards*.

The new national body could be called *Tourism Scotland*. It should be responsible for the marketing of Scotland as a whole in domestic and overseas markets and focus on marketing those areas where there is potential that has not been fully developed. It should also be responsible for investment, to stimulate enterprise, business and product development, visitor servicing and training, by incorporating the expertise currently in Highlands and Islands Enterprise and Scottish Enterprise. *Regional Tourism Boards* should stimulate tourism development around Scotland and mirror at regional level the national strategy.

### *Level of funding*

The level of funding for tourism in Scotland from the Scottish Government is significantly less than in competitor countries. We consider that increased investment would yield substantial benefits and justify the additional costs. To be effective, our proposed new national body will need funds in line with Tourism Ireland (in 2007, VisitScotland's marketing expenditure was £28 million compared with Ireland's All Island Marketing Budget of £50 million).

**Subsidiary Recommendation 37a:** The level of funding from the Scottish Government should be increased: a higher level of investment would yield economic and employment benefits far outweighing the initial investment.

### *Seasonality*

It is essential that all public agencies involved in re-energising the industry should have an objective of reducing seasonality. National marketing funds and public sector investment should give greater priority to extending the season, particularly targeting the domestic market, given its importance to Scotland. Consideration should also be given to providing incentives to businesses (including visitor attractions) to extend the season. For example, as a tax incentive, business rates could be reduced or eliminated for a period with additional 'carrots' provided for retaining staff throughout the off-season.

**Subsidiary Recommendation 37b:** Reducing seasonality should be a high priority as it will help to expand tourism businesses and exploit opportunities in the market place which are currently underdeveloped.

### *Branding*

The proposed new national tourism body should re-examine the work of 'Scotland the Brand' and also consider in depth, what really differentiates Scotland from other countries, such as 'Great Scots', Scottish culture, the natural and built heritage, and other appropriate themes.

**Subsidiary Recommendation 37c:** Marketing resources should be used to develop long-term campaigns similar to New Zealand's '100% Pure' and Ireland's 'Your Very Own Ireland'.

### *Improving visitor services*

Tourism is a very competitive market. It is essential that the tourism bodies in government and industry take steps to bring standards of service to a higher level. The new national body and the Regional Tourism Boards should have responsibility for training and career development in tourism. This should be pursued with vigour and determination, particularly given the priority of 'All Year Tourism' and the drive to lessen the affects of seasonality. Further and Higher Education providers in the Hills and Islands all have a role to play. A coordinated approach to provision is needed to ensure that there is access to training facilities throughout the Hills and Islands.

**Subsidiary Recommendation 37d: Tourism business leaders and tertiary level education and training providers in the Hills and Islands should work together to ensure that appropriate training and development opportunities are available throughout the area in order to improve the career prospects of people who wish to work in the industry and by doing so improve the quality of services offered to visitors.**

Grading and classification and the overall standards of service in the Hills and Islands receive a very mixed reception from tourists. We consider that the grading and classification of accommodation 'Hotel', or 'Guest House', or 'B&B', using an agency, such as the AA or RAC, should be seriously explored, and additionally, the pros and cons of compulsory registration should be examined.

**Subsidiary Recommendation 37e: Compulsory registration of tourism establishments should be examined and independent assessments should be undertaken to improve visitor service standards by an agency such as AA or RAC.**

### *Tailor-made packages*

We have also heard that it is less easy for visitors to obtain a tailor-made package of accommodation, food, transport, and a variety of activities. We have even been told that government bodies refuse to make a link between their web sites and private sector web sites. The easier it is made for potential visitors to discover options and to make bookings, the greater the chances of conversion from an aspiration to a visit.

**Subsidiary Recommendation 37f: Public and business interests in the tourism sector should work more effectively together to ensure that information for potential visitors is readily available on the web on a par with competitor destinations.**

### *Outdoor tourism potential*

We consider that the Hills and Islands have the potential to become a major 'outdoor activity centre of Europe'. This will require investment by the new national body and the **Regional Tourism Boards** in establishing Outdoor Activity Centres as a matter of urgency. The activities should include walking, cycling and nature watching, as well as the more extreme outdoor activities such as white water rafting and rock climbing.

**Subsidiary Recommendation 37g:** Land and water based leisure activities and facilities should be developed by the new *Regional Tourism Boards* working with other public bodies and the private sector to meet consumer demand for visitor use, provided that they do not reduce the quality of the environment.

### *Environmental tourism*

There are a number of opportunities for attracting visitors through the use of special recognition of the natural qualities of rural landscapes. In particular, we consider that there is potential for visitor development through the establishment of additional *Geoparks* in addition to the one established successfully in Assynt, and the development of a small number of new *National Parks* in those areas of the highest natural heritage quality on land, at the coast and in the marine environment. The designation of *Biosphere Reserves* and *World Heritage Sites* are also important and proposals need to be put forward to UNESCO by government. Such designations have greatly assisted good practice in management and, by linking international and national quality status with local community engagement, have been of benefit to the visitor and to the local community.

**Recommendation 38:** The Scottish Government, other relevant bodies and local communities should seriously consider the establishment of further National Parks in the terrestrial, coastal and marine environments.

**Recommendation 39:** Public authorities and local communities around the Hills and Islands should work together to prepare proposals for the designation by UNESCO of Geoparks, Biosphere Reserves and World Heritage Sites in the Hills and Islands.

## **Energy**

The previous RSE Inquiry into Energy Issues for Scotland set out the case for an energy strategy for Scotland comprising clear policy objectives. These included embracing energy efficiency and energy savings, a switch from fossil fuels to environmentally benign sources for heating, transport and electricity, and stimulation of new technological development. We strongly support these recommendations and consider that they are even more necessary than two years ago when they were first made.

### *Transmission infrastructure and policy*

Planning of enhanced transmission facilities is piecemeal and there is no overall plan for new facilities to connect larger-scale renewable energy installations to the national grid from remote locations. We are concerned that decisions on the location of renewable energy facilities are taken on an *ad hoc* basis using the town and country planning system, which was not designed for this purpose. In view of the importance placed on the quality of the landscape for local communities and for visitors, the failure of the Scottish Government to address this issue is disappointing. We strongly support the recommendation of the previous Inquiry on the need for a locational strategy for renewable energy as part of an approach to integrated land resource use.

It is clear that the current mechanism for charging for access to the national grid for electricity generated in locations remote from the consumer, where many of the best resources are to be found, presents a major difficulty for renewable energy development. In particular, the lack of a strategic approach to linking the islands to a substantially upgraded electricity grid is a major deterrent to the development of renewable energy sources on the islands for use on the mainland.

**Recommendation 40:** The 'locational charging scheme' for entry to the national grid should be urgently reviewed. The Scottish Government should press the Department for Business Enterprise and Regulatory Reform and the National Grid Company to reduce the disadvantage of remoter locations to supply electricity from renewable sources to UK consumers.

**Recommendation 41:** The Government and National Grid Company should develop a strategy for the connection of island-based renewable energy sources to the mainland electricity grid.

### *Community benefits*

The prospects for economic benefits to local communities from energy technology and energy production from renewable sources are substantial. The current concentration on onshore wind technology can bring community benefits, provided that the scale and location of the development is in keeping with the local environment. But, it is of the greatest importance that local communities receive real financial benefits in the longer term. This has seldom been the case with such developments in the past.

**Recommendation 42:** The Scottish Government should develop a scheme for ensuring that local communities receive financial benefits from renewable energy developments.

There are emerging technologies, which are expected to come into productive use in future decades, that can provide energy to local communities to reduce the reliance on imported sources, provide financial benefits and not detract from the local environment. Smaller scale wind, micro hydro-electric, use of forest waste or low grade wood for biomass, use of waste from industrial processes, as well as tidal and wave sources along the coast, are the most likely to emerge in the next decade. Communities should be supported in making the best of these opportunities.

We applaud the activities of the Highlands and Islands Community Energy Company and welcome the extension of its activities to central Scotland. It can help to build community capacity to negotiate successfully with large energy companies. However, we would like to see more communities actively taking control over their energy production. Rather than being seen as an exportable asset, energy should be seen as a potential contributor to community empowerment. The development of local electricity grids, and the development of renewable energy sources for local use, are all part of reducing the carbon footprint of rural areas.

**Recommendation 43:** Community-based sustainable energy projects should be encouraged and communities' ability to get the best deal from major energy companies, land owners and other development interests should be increased by expanding the Highlands and Islands Community Energy Company to cover the whole of rural Scotland.

## *Renewable heat strategy*

We see considerable opportunity for the use of wood fuel as an energy source in those parts of Scotland where this material is available as part of forestry operations. This material is particularly effective for simple community heating systems or for Combined Heat and Power. We welcome the proposed Renewable Heat Strategy by the Scottish Government. To be successful it will require appropriate incentives to realise market opportunities.

**Recommendation 44:** The proposed Renewable Heat Strategy should be implemented as soon as possible to enable biomass to contribute as fully as possible to our renewable energy commitments. Funding packages should be introduced to encourage long-term planning and development in the installation and distribution sectors.

## **Food**

The relatively poor quality land and its focus on unfinished livestock production, means that the Hill and Island areas have a limited capacity to produce food. There are, however, important exceptions. These include meat and fish processing and distilling, and fruit and vegetables. There are also companies like Baxters of Fochabers, and Walkers of Aberlour in the traditional food sector that have shown remarkable growth. Scotch whisky stands out as a world famous alcoholic beverage. The whisky industry is intimately associated with the Hills and Islands and creates a global identity for the area as a place of premium quality food and drink production.

We recognise the economic benefit that all of the above sectors of the food and drink industry contribute to the Hills and Islands. However, given our concentration on the land resource base and, in particular, on the future of agriculture, in the rest of this section we focus on the opportunities and obstacles to the development of the red meat sector, specifically on the issues of abattoirs and associated aspects of food processing and marketing.

### *Developing local food markets and abattoir provision*

Attempts to develop local food markets and branding schemes have had a number of successes and many failures. We applaud the successful attempts by marketing groups and individuals to create local brands with labelled food products that sell successfully into local and wider markets. The ingredients of success are availability of local raw material of high quality, local food processing facilities, and information on and marketing in both local and more distant markets. The provision of abattoirs and related local meat processing facilities is a key ingredient to secure local value added to livestock production and distinctive local brands. The successful operation of abattoirs depends on large scale and high continuous throughput, which prevents many parts of the Hills and Islands having access to these facilities and results in livestock being transported unacceptable distances far from its area of origin and losing its local identity in subsequent marketing.

A particular problem which affects some of the islands and remoter parts of the mainland is that volumes are insufficient to make local processing facilities, and especially abattoirs, financially viable. The position is exacerbated by problems caused by regulation and the costs of regulation necessary to meet EU requirements, especially following the outbreak of BSE. The existing food processing industry also has a vested interest in retaining high throughput capacity within its existing plants. However, we consider that provision of facilities is such an important ingredient in the successful development of locally branded food marketing, and in achieving other non-market benefits, such as biosecurity, animal welfare and a food's green credentials, that solutions need to be found.

It has been pointed out to us that if local councils attempt to assist local abattoirs, for example, this can be challenged under the EU State Aids rules. We consider that a twin-track approach is needed: to develop markets for food under a generic Scottish brand image and to provide a spread of meat processing facilities around Scotland. What is needed is a solution that looks beyond the economics of abattoirs and other processing facilities, and seeks to maximise the opportunities for local processing of meat to provide the greatest local benefits. We note that this has been achieved in other EU Member States.

**Recommendation 45:** The provision of local abattoirs and meat processing facilities in the Hills and Islands of Scotland should be investigated by the Scottish Government in relation to EU State Aids, the economics of operation, and the wider benefits to local businesses and the community. A geographical spread of facilities needs to be provided to improve the prospects of adding value locally to livestock products.

**Recommendation 46:** Farmers' organisations and marketing cooperatives should make greater efforts to produce locally distinctive livestock and other food produce for local consumption by residents and visitors, and for direct sale into more distant markets.

### *Food and tourism*

We recognise the importance of locally produced food from marine and freshwater fish, from animal products and from fruit and vegetables especially for incoming population and for visitors.

**Subsidiary Recommendation 46a:** Tourism businesses should be encouraged to use regional and local food as their dominant offering.

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## 5. DEVELOPING VIABLE COMMUNITIES

It is clear from our work that the use and management of the land resource is of key importance to a range of activities in rural Scotland. The multiplier effect of land management, including agriculture, is considerable. Many services, such as haulage contractors, veterinary services and food processing, depend on the use of the land. It also brings vitality to rural areas that would be otherwise missing. However, there are other ingredients of success that are well beyond the land, and the solution is more complex than the development of individual economic sectors.

In many places, the demographic structure is not healthy. Despite a very high activity rate in many parts of the Hills and Islands, there is a persistent danger of population imbalance, with young people leaving and older people, many of whom are retired, among the incomers. Therefore, encouraging the provision of higher education, affordable housing and the growth of employment for younger people in these areas will be important ingredients of success. A diversity of population in rural areas is vital. If the ingredients are right, communities will comprise those who stay beyond school age, those who return after higher education or from being in businesses elsewhere, and those who relocate for business and lifestyle reasons. There is already evidence that together they have the potential to bring a vibrancy of attitudes and ideas to maintain viable communities and rejuvenate those that are in decline.

Key services for viable communities are availability of affordable housing, access to modern communications technologies, locally based primary and secondary schools, further and higher education through direct contact and distance learning, and accessible transport at affordable prices.

## **The Need for Affordable Housing**

There is one issue that dominates all others and was brought to our attention throughout our visits: the need for affordable housing.

### ***Rented housing***

Housing policy in recent decades has resulted in a large decline in the availability of social rented accommodation at a price that the economically active young people, especially those with families, can afford. This is mainly a consequence of the 'right to buy' policy, which has resulted in the sale of much local authority owned stock. But there has also been a huge increase in house prices, which puts house ownership beyond the means of many local people. This situation has arisen despite the best efforts of housing associations and the development of housing trusts in parts of the area. This must not be allowed to continue, and we applaud the proposals in the recent discussion paper by the Scottish Government on housing<sup>24</sup>.

Over the last twenty years, housing associations have been the main and growing providers of new social housing, though their share of the stock is still much smaller than that of local authorities in rural areas and less than in Scotland as a whole. However, if the role of housing associations in these areas is to be increased, as we would wish, the Scottish Government will have to be prepared to increase the amount of Housing Association Grant (HAG) made available to them.

**Recommendation 47: We support the Scottish Government's intention to increase the supply of social rented housing and its intention to end 'right to buy' on new social housing. We recommend that new build should be undertaken, for preference, by housing associations.**

The private rented sector also has a role to play. Already many landowners provide housing at less than full market rents, either to people who work for them, or because they have a sense of commitment to their local community. Some landowners accept tenants from the local authority list for their housing, in which case they would receive rents below market rents. From evidence submitted to us, they could play a larger part in providing affordable housing<sup>25</sup>. We would see advantage in something equivalent to HAGs being made available in the private rented sector. We were, therefore, pleased to hear of a pilot £5 million scheme announced by the Communities Minister in February 2008<sup>26</sup>. It is not yet clear how this will operate but once it is assessed, we would like to see it extended.

**Recommendation 48: Grant arrangements, equivalent to Housing Association Grant for housing associations and linked to affordable rents, should be made available to implement the Scottish Government's wish to work with the private sector in providing affordable housing to rent.**

Another issue related to the private rented sector is the impact of Inheritance Tax (IHT) and Capital Gains Tax (CGT) on landowners. These tax payments may require property to be sold off to pay the tax, with its possible loss as affordable housing. There would seem to be a case for introducing a deferment of the IHT liability for as long as the housing is let on affordable terms.

<sup>24</sup> Firm Foundations: The Future of Housing in Scotland. Scottish Government. October 2007

<sup>25</sup> The Committee saw an example of this when it visited Kincardine O'Neil.

<sup>26</sup> <http://www.scotland.gov.uk/News/Releases/2008/02/29082638>



**Subsidiary Recommendation 48a: Inheritance Tax liability on property let at affordable rents should be reviewed to enable the former to be deferred so long as it is let on affordable terms.**

### *Shared equity schemes*

Shared equity schemes can play a useful part in making housing affordable. These can be provided by those housing associations that offer housing to buy or by housing trusts set up specifically for this purpose<sup>27</sup>. The Committee were impressed by the evidence received from the Highlands Small Communities Housing Trust, and the Dumfries and Galloway Small Communities Housing Trust. Both of these trusts have introduced shared equity schemes with pre-emption right conditions known as Rural Housing Burden. We believe that the example set by these two Small Communities Trusts could have wider application and we would like to see it extended to other rural areas.

**Subsidiary Recommendation 48b: We support shared equity schemes and recommend that their role should be further developed for those unable to fund the whole cost of home ownership. In particular, we would like to see Small Communities Housing Trusts in operation throughout rural areas.**

### **Planning**

The need for housing in the hill and island areas is not, however, only a matter of devising better provision for those who are less well off. Planning rules with respect to development in the countryside are now outmoded and need to be radically updated, with concentration on the design of the property and whether the site is appropriate, rather than simply its location. There needs to be more freedom to build in Local Plans.

What is needed, therefore, is a much more flexible policy with more areas zoned in Local Plans as suitable for new housing. Landscape, and the ability of development to blend with it, is important to the success of the tourism industry and, though there are many attractive villages in the hill and island areas, there are also many that illustrate what should not be done. There need also to be greater incentives for owners to release land for housing, but we think that a more flexible planning policy might be sufficient to achieve this.

**Recommendation 49: The Scottish Government and Local Councils should urgently review their planning policies to make them less restrictive on the building of new housing in rural areas, with emphasis instead on design, environmental footprint and landscape compatibility.**

None of the above recommendations are without their cost in public expenditure. However, it is wrong that economic development in the Hills and Islands should be constrained by lack of a sufficient supply of affordable housing; and wrong also that house prices should be driven beyond the reach of local people, forcing some of them to leave, even if they can find employment.

<sup>27</sup> These trusts are set up under the Title Conditions (Scotland) Act 2003 (Rural Housing Bodies) Amendment Order 2007.

## Improved Transport Provision

Hills and Islands communities are very dependent on co-ordinated, reliable, frequent and affordable transport services. This is particularly important for more remote communities on the mainland and on the islands. We recognise that cars are a necessity for most families in the Hills and Islands due to the paucity of public transport services. We note, however, that costs are escalating, especially fuel costs, which already tend to be much higher in the remoter areas than elsewhere in Scotland, and a review of possible alleviation measures should be undertaken.

**Recommendation 50:** The Scottish Government should consider appropriate measures for alleviating the high fuel costs for those living and working in the remoter areas of Scotland.

### *Roads*

Major roads have been improved considerably in recent decades to link settlements to ferry ports and to each other. However, there remain some parts of life-line routes where the standards are inadequate. We recognise that there are high costs of making improvements, but these routes provide essential services to communities on the mainland and via ferry services to the islands.

**Recommendation 51:** Transport Scotland should undertake a review of modernisation of the main trunk routes servicing key settlements and ferry terminals in rural Scotland to ensure that they do not constrain economic development and that they provide the life-line services required by communities.

### *Ferry services*

Many ferry services and port facilities between the mainland and the islands, and between islands, have been substantially improved in recent decades. We recognise that the majority of these are not economic and yet are high cost for island-based users. But in some locations, the services are still inadequate to meet the demand and, in others, they constrain development. Points made to us in the course of our Inquiry suggest that a proper review of ferry services, especially to the southern Inner Hebrides and to the outer islands of Orkney, is overdue. More effort is required to ensure the co-ordination of timetabling across all public transport services.

We note the 'pilot' scheme for Road Equivalent Tariff (RET) recently announced by the Scottish Government for services from the mainland to the Western Isles. We consider that this puts other island groups reliant on ferry services from the mainland at a disadvantage. We recognise, however, that the RET is not necessarily the most beneficial approach for services to Shetland.

**Recommendation 52:** The Scottish Government should review the means for supporting ferry services to other islands served from the mainland so that they have a similarly advantageous scheme to that of the Western Isles.

**Subsidiary Recommendation 52a:** A review should be carried out on the ferry services to Islay and Jura with a view to improving the service and reducing its cost as a boost to local business and tourism.

**Subsidiary Recommendation 52b:** An assessment should be carried out on the possibility of restoring a service from Barra and South Uist to Mallaig.

**Subsidiary Recommendation 52c: The capacity on the Orkney inter-island service should be increased as soon as funding can be found, and the Scottish Government should consider whether it can assist the Islands Council.**

### **Improved Access to Telecommunications**

Modern broadband and digital communications technologies are an essential part of business operation and offer opportunities for development in these areas. A large proportion of the population also uses them for non-business purposes. It is essential for the future that access to these technologies is available to those living in the remoter areas where reception from centrally managed communications systems is relatively poor; and that the capacity and speed of the system does not disadvantage them. It is important that they are provided with the necessary facilities to connect with information and contacts throughout the world.

**Recommendation 53: The Scottish Government and its preferred contractor should give priority to ensuring access to broadband, and in the future new technologies, for all hill and island communities, and to ensuring that its capacity and speed throughout the area is increased.**

**Recommendation 54: The remoter areas of the mainland and islands should be given special priority for access to any new communication services.**

### ***Rural Post Offices and Integrated Service Delivery***

It should be the objective of government nationally and locally in Scotland to make all of the services and facilities that are available to urban populations available also, as far as possible, to those who live in rural areas. A particular effort is needed for those who live in the remoter locations on the mainland and on the islands. We recognise that there are increased costs in making provision for small groups of clientele: these have to be balanced against the costs of other payments from the public purse if communities become increasingly less viable. However, services can be based together if the needs of the customer are placed ahead of the needs of the provider. Integration of availability and delivery of services would bring benefits to clients and also bring savings in operation.

**Recommendation 55: All parts of central and local government and their agencies in providing services to rural areas should establish effective mechanisms to ensure integrated delivery of services to increase the viability of rural communities.**

Recent debates about post office closures bring these points into sharp contrast. Using a market-based approach to arrive at solutions clearly ignores a range of social and other benefits that a community requires. We recognise that many services have low levels of business in rural areas compared with urban areas. Nevertheless, they play a pivotal role in the social life of communities, as well as providing access to services for those with mobility difficulties. It is surprising that the Post Office has been allowed to consider only the commercial aspects of its business through the current cost-cutting process. It provides an important and often vital service in small communities and can make the provision of complementary facilities, such as a shop, viable. We consider that the current closure exercise is based on the wrong set of principles and that the Scottish Government should press for the wider benefits of rural post office operation to be taken into account. This is such a serious issue that we consider the current closure programme should be halted to allow a new wider rationale for rural post offices to be developed.

**Recommendation 56:** The UK and Scottish Governments should recognise that the role of post offices is not simply as a commercial business, but that there is an important social role as well and that it should seek to develop the range of services provided through post offices. The current closure programme should be halted to allow a new rationale to be implemented.

**Recommendation 57:** Local Councils and enterprise bodies should work with local entrepreneurs to devise a means of retaining or opening local shops in rural areas.

## Education and Culture

### *Education provision*

A modern economy depends for its prosperity on the skills and quality of its workforce, and this is as important in the hill and island areas as elsewhere. Many of our rural schools have an excellent reputation. Accessibility to pre-school, primary and secondary schools is a major factor in retaining young families in rural areas, and in enticing others to relocate there. The unit costs are much higher than for schools in urban areas, largely because of smaller class sizes, but in the broader context of achieving vibrant rural communities, this provision is essential. Also, use of schools for community activities outside school hours can bring great benefits, especially where there are no alternative facilities available in the locality. The provision of high quality care for children and the elderly is as important to rural communities as it is to urban areas.

There are several FE Colleges and developing university level facilities in the Hills and Islands, but until recently, attendance at university required people to leave. We believe that easier access to Further and Higher Education by people in the Hills and Islands is essential for the economic, social and cultural wellbeing of those communities. We recognise the importance of the creation of the University of the Highlands and Islands Millennium Institute (UHI) and the establishment of the Crichton University Campus in Dumfries for the future delivery of tertiary education in rural areas.

The presence of a university in an area brings substantial benefits. Not only is it a source of high quality employment, but research undertaken, focusing very often on subjects of special importance in the area, can lead to new high quality businesses being created. It can also be a factor in attracting inward investment, and creating better paid jobs.

### *Land resource based education*

We also recognise the need for a more coherent and integrated approach to the provision of land-based education and training, specialist advice and re-skilling in the Hills and Islands. To achieve this, the model developed by the Scottish Agricultural College, working with the three specialist land-based FE colleges and with other FE colleges, should be further developed.

**Recommendation 58:** The Scottish Government, working with existing FE and HE providers, should help to secure a coordinated and integrated approach to the provision of land resource based further and higher education in rural Scotland.

## Culture and arts

We recognise the importance of arts and culture as part of the tradition and continuing interest in many rural areas of Scotland. During our visit to Skye, the point was made to us very strongly that the regeneration of the Gaelic language can give a confidence to an area from which the economy can also benefit. We could see for ourselves how the foundation of Sabhal Mor Ostaig, and the development of the Gaelic culture, has helped in the regeneration of the Sleat peninsula. More generally, celebratory events are an important part of the yearly calendar, and also of great interest to visitors. Maintenance and stimulation of the diversity of artistic and cultural activities is vital for the future health and viability of local communities. We commend the many events, festivals and other activities that promote participation and enjoyment in arts and culture.

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## 6. GOVERNMENT ORGANISATION AND POLICY DELIVERY

### Rural areas policy

The Scottish Government Spending Review 2007 sets out clear policies and targets for public expenditure in Scotland for 2008 to 2011. It is surprising that a major cross-cutting issue like the provision of government support to rural areas is not given any prominence. One approach often used is to test whether all policies, activities and resource allocation within Government meet the needs of particular areas or customer groups. This is termed 'policy proofing'. It is used for testing compliance with the sustainable development strategy for Scotland. With the increasing complexity of government intervention, such an approach is necessary. We agree with the proposals made by the Scottish Consumer Council<sup>28</sup> that there needs to be policy proofing for all policies that affect rural areas.

**Recommendation 59:** the Scottish Government should establish a *Rural Areas Proofing Test* for all policies and activities affecting rural areas.

### Integrating Policies and Devolving Responsibilities

We welcome *On the Ground* and its successor SEARS<sup>29</sup> initiative by the Rural Directorate of the Scottish Government to ensure that the services of all of the government bodies dealing with rural land and environment provide a one-door approach to clients. However, we are not convinced, as yet, that a more integrated policy approach is evident either in implementation or at the point of delivery.

We have evidence of greater centralisation in administration and a focus only on large development opportunities: for example, the scrapping of Local Enterprise Companies, concentration of Scottish Enterprise and Highlands and Islands Enterprise on national economic targets, dismantling of SNH Areas Boards and replacement with local liaison contacts, removal of Area Tourist Boards and operation of VisitScotland as a national marketing body. This mode of operation ignores the diversity of needs and opportunities around rural Scotland, fails to harness the innovative capacity of local communities, the opportunities for local participation in decision-making and the benefits of local delivery.

<sup>28</sup> Scottish Consumer Council (2007) Rural Advocacy in Scotland

<sup>29</sup> <http://www.sears.scotland.gov.uk/DocumentView.aspx?id=9>

Theoretically, one way to redress the imbalance is to give more power to Local Councils. However, we have received little evidence to suggest that this would be effective, as Councils have yet to demonstrate unequivocally that they can work effectively with other public bodies and achieve thorough integration of service delivery. Though we welcome the steps taken by the Scottish Government to strengthen Community Planning partnerships, we note that these focus largely on the main services. What is needed is full integration of policy and delivery to meet the diverse needs and opportunities of Scotland's rural areas through all aspects of government delivery: central, local, and agencies.

**Recommendation 60:** The Scottish Government should ensure that the national delivery agencies operate effectively on a regional and devolved basis to ensure integrated delivery of policy and action to meet the diversity of needs and opportunities around rural Scotland.

**Subsidiary Recommendation 60a:** The Scottish Government should develop customer focused, one door, multi-function advisory services accessible to all those seeking help within rural areas, paying particular attention to those in the remoter areas.

## Extending Integrated Social and Economic Development

For over four decades, the Highlands and Islands have had the benefit of an integrated social and economic development agency. We strongly support its continuation, as there are many parts of the area that are still disadvantaged. Similar provision has never been available for the rest of rural Scotland; we believe this to have been a mistake. There are parts of rural areas on the mainland that have the same degree of disadvantage as the Highlands and Islands, as shown by the Government's multiple deprivation indicators. We consider that Government needs more targeted and integrated approaches than those provided by Scottish Enterprise and its LECs and hitherto by Communities Scotland.

**Recommendation 61:** The Scottish Government should give serious and early consideration to integrated policy making and delivery on social and economic development for those areas outside the Highlands and Islands.

## Informal Mechanisms

Formal structures for the development of new approaches, for consultation on policies and action, and for delivery of services have an important role to play. However, in rural areas, and especially in dispersed communities and small settlements, less formal mechanisms are often more effective. Initiatives such as *Planning to Succeed* and *Profit without Subsidy* have had some successes led by government organisations. Other approaches to empowering local communities, for example through land reform legislation and community right to buy, and through support for capacity building to allow communities to take more control of decisions and provide leadership, have also been important. We strongly support these approaches but we recognise that these are not universally practised around the Hills and Islands and that more facilitation and support is needed.

**Recommendation 62:** The Scottish Government and Local Councils should give more active support to the development of local community leadership and empowerment, facilitate the more effective involvement of local communities in the community planning process and in the development of social and economic opportunities.

We draw particular attention to the LEADER approach. LEADER has been developed by the EU and used extensively in many EU Member States. It has been commended to us on a number of occasions. The reason for its success is community participation in determining solutions relevant to the area, and because it is an integrated cross-cutting approach that is able to bring different partners and perspectives together. We consider the model has potential for wider use in the allocation of funds from central and local government sources.

**Recommendation 63: Central and local government should adopt the principles of the LEADER approach in developing and implementing schemes in rural areas.**

### **Coping with Regional Variation**

It is clear from our visits that there is a great deal of variety in circumstances and opportunities within the Hills and Islands of Scotland, for example between Orkney and Shetland, which cannot be handled under the generic heading Northern Isles. Similarly, there are considerable differences in southern Scotland between the Borders to the east and Dumfries and Galloway to the west. Agriculture is part of the land use and the economy of most areas, but its relative importance is highly variable, for example between highly dependent locations such as the Borders and Orkney, and those of lesser dependence such as Skye, some of the Inner Hebrides and the northwest mainland. Community viability is also highly variable: some locations are improving, some deteriorating; some give little cause for concern; and others remain at the margin of viability. It is for these and other reasons that solutions cannot be applied on a uniform basis throughout rural Scotland.

The *'one size fits all'* approach sometimes used by central government is not appropriate: locally and regionally tailored solutions make more economic, social and environmental sense than top down approaches.

**Recommendation 64: When setting new policies and reviewing existing ones, both central and local government should ensure that the diversity of social, economic and environmental circumstances and opportunities are fully taken into account.**

**Recommendation 65: Scottish Government and Local Councils should develop flexible policies, funding mechanisms and approaches in recognition of the diversity of opportunities and situations in rural Scotland.**

### **Financial Implications**

None of the above recommendations are without their cost in public expenditure. Even a more liberal planning policy will involve the additional provision of services, such as water. The right approach is for Government to provide the investment in services that helps hills and island communities and economies to become self-sustaining. Failure to do this only ensures that their support becomes an increasing burden for public funds. We urge therefore that Government should give priority to the measures outlined above.

**Recommendation 66: The Scottish Government, as part of a new integrated policy for rural areas recommended in this Report, should recognise in its financial allocations the need for maintaining viable communities in the remoter areas of Scotland. It should also ensure that the services provided by other parts of government achieve the same objectives.**

## **7. CONCLUSION**

**There is justification for a new approach to the development and delivery of policy and action in the Hills and Islands of Scotland and in rural areas more generally. In short:**

- **fragmentation needs to change to coherence;**
- **administrative focus needs to change to consumer focus;**
- **arguments between public sector organisations need to switch to alliances to benefit the target beneficiaries; and**
- **top-down approaches need to change to more community driven approaches within flexible national frameworks.**



## ACRONYMS

AA	Automobile Association
B&B	Bed and Breakfast
BSE	Bovine Spongiform Encephalopathy
CAP	Common Agricultural Policy
CGT	Capital Gains Tax
EU	European Union
FE	Further Education
GAEC	Good Agricultural and Environmental Condition
GHG	Greenhouse Gas
HAG	Housing Association Grant
HE	Higher Education
HIDB	Highlands and Islands Development Board
HIE	Highlands and Islands Enterprise
HNV	High Nature Value
IHT	Inheritance Tax
LECs	Local Enterprise Companies
LFA	Less Favoured Area
LFASS	Less Favoured Area Support Scheme
OECD	Organisation for Economic Co-operation and Development
RAC	Royal Automobile Club
RET	Road Equivalent Tariff
RPAC	Regional Proposal Assessment Committee
RSE	Royal Society of Edinburgh
SAC	Scottish Agricultural College
SCDI	Scottish Council for Development and Industry
SEARS	Scotland's Environment, Agriculture and Rural Services
SFP	Single Farm Payment
SNH	Scottish Natural Heritage
SRDP	Scotland Rural Development Programme
UHI	University of the Highlands and Islands Millennium Institute
UK	United Kingdom
UNESCO	United Nations Educational, Scientific and Cultural Organization

## GLOSSARY

**Article 69:** Of Council Regulation (EC) No 1782/2003, which will become Article 68 in the proposed Council Regulation COM(2008) 306 final. Member States may retain up to 10 % of the component of Pillar 1 payments for specific types of farming which are important for the protection or enhancement of the environment or for improving the quality and marketing of agricultural products.

**Axis 1, 2, 3 & 4:** The Scotland Rural Development Programme is set out under four Axes: Axis 1 – Improving competitiveness of the agricultural and forestry sector; Axis 2 – Improving the environment and countryside through land management; Axis 3 – Improving quality of life through diversification of economic activity; and Axis 4 – to increase the capacity of local community and business networks to build human capital, stimulate innovation and co-operation locally through LEADER.

**Carbon Dioxide equivalent:** the concentration of CO<sub>2</sub> that would cause the same level of radiative forcing as a given type and concentration of greenhouse gas.

**Common Agricultural Policy:** Article 39 of the Treaty of Rome in 1957 set out the objectives of the CAP as follows: to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production, in particular labour; thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture; to stabilize markets; to assure the availability of supplies; to ensure supplies reach consumers at reasonable prices. (See Pillar 1 and 2)

**Good Agricultural and Environmental Condition:** To receive the Single Farm Payment farmers must comply (known as cross-compliance) with the two main conditions. Firstly, Statutory Management Requirements (SMRs) which aim to protect public, plant and animal health, the environment and the welfare of animals and secondly, Good Agricultural and Environmental Condition (GAEC) standards where farmers are required to maintain soils, habitats and landscape features. Farmers will be inspected to check that they are meeting these standards, and breaches may result in sanctions being imposed.

**LEADER:** Part of the new Scotland Rural Development Programme, aimed at promoting economic and community development within rural areas. It replaces the Leader+ programme that ran from 2000 to 2006, and encourages new and experimental approaches to rural development. LEADER is a bottom-up method of delivering support for rural development through implementing a local rural development strategy.

**Less Favoured Area:** In the European Union, less-favoured area (LFA) is a term used to describe an area with natural handicaps (lack of water, climate, short crop season and tendencies of depopulation), or that is mountainous or hilly, as defined by its altitude and slope.

**Less Favoured Area Support Scheme:** Is part of the Scotland Rural Development Programme and aims to contribute to the maintenance of the countryside, and viable rural communities, by ensuring continued agricultural land use maintain and promote sustainable farming systems. It does this by compensating the farmers and crofters who farm in the most disadvantaged areas of Scotland with annual area-based payments.

**Modulation:** A movement of funds from Pillar 1 of the CAP to Pillar 2.

**Pillar 1 and 2:** The Common Agriculture Policy accounts for around 50% of the EU's budget and covers a wide range of expenditure. It is divided in two, referred to as Pillar 1 and Pillar 2. Pillar 1 provides direct support to farmers under the Single Farm Payment. Pillar 2 provides expenditure under the Rural Development Regulation for a range of measures including: agri-environment, farm adaptation, forestry, processing and marketing of agricultural produce, training and development, and less favoured area support.

**Regional Proposal Assessment Committee:** Each of the 11 RPACs are made up of representatives of the Scottish Government, Scottish Natural Heritage, the Scottish Environmental Protection Agency, the Forestry Commission, and from Business Enterprise and/or Local Authority and are Chaired by one or other of these representatives. These RPACs will select which Proposals to recommend to Scottish Ministers for funding.

**Single Farm Payment:** The main aim of the payment is to guarantee stabilisation of farmers' incomes. Farmers can decide what to produce in the knowledge that they will receive the same amount of aid, allowing them to adjust production to suit demand. To be eligible, a farmer in Scotland requires payment entitlements calculated on the basis of the payments received by the farmer during a reference period (historical model).

**Scotland Rural Development Programme:** This is a programme of economic, environmental and social measures designed to develop rural Scotland. Measures will be delivered through: Crofting Counties Agricultural Grant Scheme; Food Processing, Marketing and Co-operation Grant Scheme; Forestry Commission Challenge Funds; The LEADER initiative; Less Favoured Area Support Scheme; Rural Development Contracts; Skills Development Scheme.



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