27 February 2018

Dear Edward,

Firstly I want to convey my thanks to you and the Committee members for their helpful and constructive report on Draft Budget 2018-19 published on 19 January 2018.

I enclose the Scottish Government’s response at Annex A to the key conclusions and recommendations contained in the Report, where clarity / further detail is requested, insofar as these relate to my responsibilities as the Cabinet Secretary for Rural Economy and Connectivity.

For the Committee’s convenience the response follows the order of key conclusions and recommendations as presented in the Executive Summary section of the Report.

Yours sincerely,

FERGUS EWING
The Scottish Government welcomes the Committee’s report. Responses to the key conclusions and recommendations contained in the Report where clarity / further detail is requested are presented below.

**Food and Drink**

I welcome the Committee’s recognition of the significant investment that the Scottish Government and the wider public sector is making to support the continued growth of the food and drink industry in Scotland. As you know, that direct investment equates to approximately £100 million per annum across a range of areas including skills, education, research, industry development, standards and capital investment, all of which have been important contributors to the unprecedented growth the industry has achieved in turnover, sales and exports as well as its growing reputation for quality and provenance. I am pleased too that the industry’s positive reflection on the level of investment going into the sector was captured so positively by your evidence sessions.

36. The Committee therefore calls on the Scottish Government to review the overall package of funding provided to the food and drink sector to ensure that this is sufficient to support the step change required to realise the growth targets of Ambition 2030. This work should include a systematic review of the impact of its current and future funding to the sector.

Response

The Scottish Government will continue to keep under review the range of budgets which support the various strands of Ambition 2030. Although the industry’s aspiration to double the turnover to £30 billion by 2030 is ambitious, it is considered achievable. The industry will play the key role in this, with the public sector continuing to provide the type of support already in place. That partnership approach has worked well so far and we are committed to its continuation.

47. Whilst the Committee acknowledges the Cabinet Secretary’s view on the complexity of funding structures, there is considerable evidence that individual producers and particularly smaller producers, find the funding landscape hard to navigate. This means that available funding may not be being used as effectively as it could be. The Committee therefore calls on the Scottish Government to clarify and review the range of funding sources available to members of the food and drink sector with a view to simplifying and better coordinating funding opportunities to the sector.

Response

We welcome the thoughtful conclusions and proposals in recommendations 47 – 49. The Scottish Government will take forward work this year to simplify the support landscape and make it easier for businesses to access the right support and advice at the right time, and will keep the Committee updated on progress.
48. In particular, the Committee recommends investigating opportunities for more funding being channelled through partnerships between the Scottish Government and nation-wide industry bodies such as Scotland Food and Drink or public bodies such as Scottish Enterprise and Highlands and Islands Enterprise.

Response
The Scottish Government continually assesses the most appropriate channel for funding opportunities, including through industry and other public bodies.

49. The Committee further recommends that where effective regional support is available through, for example, local authorities, channelling national programme funding through these may be a more effective and efficient means of funding smaller and more peripheral producers. Such an approach would improve their accessibility to these funds and serve to avoid or reduce duplication. The Committee would encourage the Scottish Government to explore the viability of these opportunities.

Response
As above, the Scottish Government will be taking forward work this year to simplify the support landscape so will consider this proposal as part of that work.

54. The Committee recommends that the Government consults with the industry to develop a strategy for the prioritisation of investment. As part of this exercise, clarification should be sought on whether the aim should be to spread money thinly or to prioritise key investments.

Response
The Scottish Government will continue to work closely with the industry, Scottish Development International and other economic development agencies through the delivery of Ambition 2030 to consider investment opportunities and how best to prioritise resources.

55. The Committee also calls on the Scottish Government to provide details in future draft budgets of funding allocations that will support the Good Food Nation aspirations and how these goals will be delivered.

Response
The Scottish Government will provide details of funding allocations that will support the Good Food Nation in future draft budgets.

72. The Committee recognises the importance of people and skills support for delivering the ambitious targets of Ambition 2030. Witnesses acknowledged the success to date of skills support through partnership between industry, education providers, training bodies and Skills Development Scotland. The Committee considers that, in view of this success, the Scottish Government should consider...
whether greater priority should be given to funding for Skills Development Scotland in order to allow this important work to be developed further.

Response

Skills Development Scotland is one of a range of key agencies working to deliver our priorities in relation to skills more widely and specifically within the food and drink sector. Schools, colleges, universities, local authorities, third sector bodies and indeed, businesses themselves are also involved and all receive appropriate funding through different programmes and workstreams. The Scottish Government remains fundamentally committed to our activity in this area to ensure we have a skilled, quality workforce in food and drink and in other key sectors.

90. Concerns were expressed over levels of funding for innovation to the food and drink sector as a whole. Innovation is one of the 3 key pillars of Ambition 2030, yet funds for innovation are relatively small and funds for research have been falling in real terms year on year. The Committee notes that the innovation needs of the sector require long term strategic funding commitments. The Committee recommends that the Scottish Government should re-examine the appropriate level of funding for this Pillar, with a view to addressing any identified shortfall in future budgets.

Response

The Scottish Government is making significant investment in research and development and innovation across all sectors, including food and drink. As part of our 2017 Programme for Government we set an ambitious target of doubling Business Expenditure on Research and Development in Scotland by 2025. To support that we are investing an additional £45m in grant support for Business R+D over the next 3 years- increasing available grant funding from £22m to £37m per annum. We are also making a £48 million investment in the National Manufacturing Institute for Scotland which will be focus heavily on automation and digital manufacturing and associated skills, key opportunities for the food and drink sector. This complements investment in Innovation Centres such as the Scottish Aquaculture Innovation Centre (in which the Government has invested £11m) which directly benefits the Scottish aquaculture sector, as well as DataLab and CENSIS, whose work has significant potential for the food and drink sector. We also announced the £150m (2018-20) Building Scotland Fund which as well as supporting housing will also support the development of new Industrial and commercial premises and business led R+D. Again, there is potential for the food and drink industry to benefit from these significant investments.

91. Whilst welcoming the Make Innovation Happen Scheme as a means of making innovation accessible to all businesses, the Committee notes that this budget is only £1m over 3 years. Whilst understanding that this is intended for seed funding for larger scale projects it is concerned that this will result in continued skewing of innovation funds to large scale projects and larger producers. The Committee recommends the Scottish Government investigates ways of increasing uptake of investment for innovation by smaller producers.
Response

The Scottish Government continues to investigate ways of increasing uptake of investment for innovation by smaller producers.

Smaller producers can be assisted through the Food Processing Marketing and Co operation grant scheme and the European Maritime and Fisheries Fund. Further support is also provided to mentor food businesses to innovate and build markets through the connect local programme which covers both the agriculture and the fisheries sectors.

Last month I launched the Rural Innovation Support Service (RISS), which forms part of the Scottish Rural Network Support Unit, both of which are funded under Technical Assistance from the SRDP.

The contract is worth up to £750k and will run until end of March 2020, with an option to extend beyond that date. RISS provides brokerage support to groups of farmers, foresters and crofters - as the first step to forming crucial and beneficial partnerships.

RISS is integral to Make Innovation Happen, providing the space for ideas to connect in order to find a solution to an issue or realise a specific opportunity and in doing so stimulate collaborative innovation with the aim of also strengthening the links between primary producers and the rest of the food and drink supply chain.

RISS will also participate in the EIP-Agri-network, sharing EU innovation projects and stimulating greater cooperation between Scotland and the EU, including working with Scotland Europa and the Scottish EU funding portal to link Scottish partnerships with other project partners to bid for EU funding including under Horizon 2020 and Eurostars.

92. Concerns were expressed over the inequity of the EU de minimis rules which apply to different parts of the food and drink industry. The Committee calls on the Scottish Government to explore whether a more balanced distribution of de minimis support across the food and drink sector might be made to assist in infrastructure and other investment. The Committee also calls on the Scottish Government to explore the potential for making beneficial changes to de minimis limits once the UK leaves the European Union.

Response

The Scottish Government notes this recommendation and will consider what might be feasible within the current rules we operate under in terms of our EU membership.

97. Whilst acknowledging a market-led prioritisation of support, the Committee acknowledges that there may be areas such as support for strategic innovation and research, including speculative research where there is a case for a commitment from the Scottish Government to continued levels of support over the longer-term. The Committee points to the SEFARI Gateway Programme as a very good example of Knowledge Exchange and Transfer and transmitting research to promote early adoption.
98. However, the Committee also notes that public funding to this programme has been falling in real terms year on year. It therefore calls on the Scottish Government to review funding allocations to this programme, taking note of the evidence from witnesses that continued falls in funding risk losing the necessary critical mass of the research required to drive the innovation agenda.

Response

As the committee is aware, there is significant pressure on the Scottish budget as a whole which has resulted in careful consideration being given to how best to manage finite resources to optimise government priorities and delivery of our economic ambitions. While there has been a slight fall in funding for our research institutes, additional funding has been found in recent years to enable the establishment of SEFARI, a wider range of knowledge exchange programmes and activities and most recently, a Centre of Expertise for Plant Health. Given that the research institutes are independent, autonomous bodies, we are working closely with them to maximise the benefit from our continuing public investment in their work and will consider, as funds allow, what more might be done to encourage long term innovation more generally in research and development.

117. The Committee notes that encouraging co-operation in the sector and fostering more collaborative supply chains has been highlighted as a key means of growing a more efficient and profitable sector and unlocking value-added. It also notes that this is an area that has been argued to need increased prioritization in terms of focus. The role of the SAOS was highlighted as playing a key role in this and the Committee seeks assurances from the Scottish Government of continued levels of adequate funding to this support organisation.

Response

I welcome the Committee’s recognition of the good work that is being undertaken to encourage and stimulate co-operation along the supply chain. If we want to see a flourishing food and drink sector we need all parts of the supply chain to function effectively and profitably, working in partnership to seize opportunities – the work undertaken by the Scottish Agricultural Organisational Society is central to that and I can confirm that the Scottish Government has committed to continuing to fund the organisation as part of our support of Ambition 2030.

118. The Committee also calls on the Scottish Government to work with industry to examine ways of keeping more value within Scottish supply chains and identify a funding strategy to support this.

Response

The Scottish Government will work with industry to examine ways of keeping more value within Scottish supply chains and how best to achieve this.
135. The Committee notes the evidence that argues for a need for investment in developing stronger and wider supply chains to new markets. The food industry has key success stories. Whisky and salmon in particular have been incredibly successful. Other parts of the industry need to learn and benefit from that success and the Committee calls on the Scottish Government to work with stakeholders to consider how this might be facilitated.

Response

The Scottish Government will continue to work closely with the industry and Scottish Development International to target new markets where appropriate. This includes continuing to support the network of in-market specialists employed in 11 cities across the world helping to promote Scottish produce, connect Scottish suppliers with international buyers, and provide valuable market insight; and also the biennial national Showcasing Scotland event bringing together over 100 international buyers with Scottish suppliers to showcase the very best of Scottish food and drink.

136. The Committee also recommends that as part of this work, the potential for encouraging the broader sector to cross-sell products to wider markets to allow different parts of the industry to develop together should be explored.

Response

The Scottish Government will explore the potential for encouraging the broader sector to cross-sell products to wider markets.

137. The Committee welcomes the Cabinet Secretary’s commitment to providing assistance to non-key sectors and to mentor and assist them in building markets and growing their businesses. It would welcome further details of this business support from the food and drink budget in terms of actual levels of funding.

Response

The Scottish Government is providing assistance to the sectors in the food & drink industries to build markets through the Food Processing Marketing and Co operation grant scheme and the European Maritime and Fisheries Fund. There is also several million per year going to support food business and mentor them to innovate and build markets through the connect local programme which covers both the agriculture and the fisheries sectors.

138. The Committee also notes an acknowledgement of the opportunities for the Scottish pelagic sector to break into new markets. It would therefore welcome consideration by the Scottish Government of how an appropriate support mechanism might be developed to provide support to the sector for this purpose and be included in future budgets.

Response

The Scottish Government will consider how best to achieve this.
139. The Committee welcomes the Scottish Government’s commitment to the funded activities to help the food and drinks industry develop their export marketing

Response

The new supplier development accreditation programme will identify up to 50 businesses with the potential for growth and will provide support and mentoring to help achieve globally recognised accreditation standards, thus opening up new market opportunities, such as through public procurement, retailers across the UK or new export markets.

Active Travel

148. The Committee welcomes the fact that the Scottish Government has responded to its recommendation from last year’s budget report and has increased funding for active travel to £80m. It considers that significant investment will be required if the Scottish Government is to meet its own ambitious targets set out in its Cycling Action Plan. The Committee requests that the Scottish Government provides details of the distribution mechanism for this investment once this is agreed.

Response

The Scottish Government will provide details of the distribution mechanism once it is agreed.

150. The Committee call on the Scottish Government to provide regular updates on the delivery and implementation of Active Travel, the Future Transport Fund and other sustainable travel initiatives resulting from investment in this area.

Response

The Scottish Government will consider carefully how best to provide such updates on delivery and implementation.

Prestwick Airport

155. The Committee notes the Scottish Government’s continuing commitment to develop Glasgow Prestwick Airport with a further £9.7m in loan funding proposed in 2018-19. However, the Committee restates its concern that the cumulative level of loan funding may present a significant challenge to the Scottish Government in realising its ambition of receiving a return on its investment in the facility.

Response

The Scottish Government notes the Committee’s concerns and continues to work to secure the best possible commercial future for the airport and the best value for its investment.
Rail

159. The Committee notes that this technical change in the way rail infrastructure and franchise payments are organised should deliver benefits and provide more stability and consistency in the way in which fixed track charges are managed and paid. It requests that the Scottish Government provide it with an update at an appropriate point to provide information on whether this change delivers the anticipated benefits.

Response

The Scottish Government will provide an update to the Committee at the appropriate point.

Ferries

168. The Committee notes the position and requests that the Scottish Government keeps it updated on the outcome of its negotiations to purchase three vessels which operate on the Northern Isles routes.

Response

The Scottish Government will provide the Committee with an update once negotiations have concluded.

Orkney and Shetland Internal Ferries

174. The Committee welcomes the Scottish Government’s commitment to continuing dialogue with Orkney and Shetland Islands Councils in relation to the fair funding principle for internal ferries in Orkney and Shetland. It calls on the Scottish Government to treat this matter as a priority and to satisfactorily resolve it by the conclusion of the current consideration of the draft budget.

Response

As Committee members will be aware, through the draft budget process, the Cabinet Secretary for Finance and the Constitution has provided additional funding of £10.5 million in financial year 2018-19 to support internal ferry services in Orkney and Shetland. We know that the committee will welcome this positive development.
187. The Committee welcomes any financial efficiency savings that co-location of laboratory services between SRUC and Moredun Research Institute may bring. It calls on the Scottish Government to monitor service provision to ensure that the decrease in the veterinary surveillance budget does not have any negative impact.

Response

The Scottish Government will undertake to do this.

196. It calls on the Scottish Government to work closely with Forest Enterprise and private sector stakeholders to consider how policy and investment strategies might be developed to deliver a step change in increasing new planting in future years. The Committee will continue to closely monitor the Scottish Government’s progress in this area.

Response

The Scottish Government will work closely with Forest Enterprise Scotland and private sector stakeholders to consider how policy and investment strategies might be developed to increase new planting. As the committee will be aware, the creation of the new body Forest and Land Scotland as a public corporation is critical to maximising available investment as part of our plans to increase new planting.

203. During its consideration of the Forestry and Land Management (Scotland) Bill, the Committee was also made aware by the Cabinet Secretary that a full replacement of the Forestry Commission IT system is likely to be required in the next few years. It calls on the Scottish Government to keep it updated on plans for this exercise are these are developed, including the financial implications.

Response

The costs associated with this are set out in the financial memorandum to the bill and in the response sent to the committee on 5 February: (http://www.parliament.scot/S5_Rural/20180205_Cab_Sec_REC_Forestry_Bill_manage_and_administer_its_forestry_responsibilities..pdf).
207. The Committee acknowledges that the Environment Climate Change and Land Reform Committee takes the lead on deer management and sporting rates. However, as this issue may have a direct financial impact on Forest Enterprise, the Committee calls on the Scottish Government to provide it with details of the outcomes of its discussions on rates relief.

Response

The Scottish Government will provide details of the outcomes of its discussions on rates relief when these are concluded.

DIGITAL

215. The Committee calls on the Scottish Government to provide it with details of the further trigger points in the DSSB contracts which will result in the release of additional Gainshare and to advise it when the future amounts to be brought forward under this mechanism are known.

Response

The Oversubsidy Clawback or Gainshare provisions in the Digital Scotland Superfast Broadband (DSSB) contracts do not formally commence until 3 months after the Full Service Commencement Date, with the first calculation point being 2 years after that. For the Rest of Scotland contract, the Clawback period will commence circa 1 May 2019, with the first calculation point being circa 1 May 2021, and every 2 years after that until 15 January 2025 when the contract expires. For the Highlands and Islands contract, the Clawback period will commence circa 30 December 2019 with the first calculation point being circa 30 December 2021 and every 2 years after that until contract expiry.

The Full Service Commencement Date is currently the date on which the final Milestone 2 is Achieved, and is when the Achievement Certificate for that Milestone has been issued. This is why the dates above are not prescribed.

Recognising that take-up across the UK had already exceeded the original 20 percent assumption, BT made an offer to public bodies across the UK in 2015 to release a tranche of Gainshare funding early – outside the prescribed contractual timings outlined above. This resulted in an additional £17.9 million being released for reinvestment back into the DSSB contracts – largely to be deployed throughout 2018 and 2019. This does not impact the calculation dates and clawback periods outlined above; though the calculations points and payments will be adjusted to reflect funds already paid.