

## **RURAL ECONOMY AND CONNECTIVITY COMMITTEE**

### **SCOTTISH GOVERNMENT'S DRAFT BUDGET 2018-19**

#### **SUBMISSION FROM DUMFRIES & GALLOWAY'S FOOD AND DRINK INTERFACE SERVICE**

##### **1. What types of budget support does the sector need to grow its capabilities and build markets?**

###### **Grassroots Resourcing**

Resource for grassroots support at a regional / local level for food and drink start-ups, micro businesses with growth potential and strategic sector development is urgently needed to enable sustainable and resilient growth and to facilitate collaboration.

The specialist nature of the food and drink industry means that new entrants benefit from appropriate and responsive business support from specialist advisors. This is currently not provided in the national framework of support.

While historically good examples of regional support have had a strong track record of success in stimulating sector growth and collaboration (for example Savour the Flavours in Dumfries & Galloway), such expertise is being lost to the industry as Economic Development Departments in local authorities experience the impact of reduced budgets.

Current regionally-branded sector support (Connect Local), while laudable in its ambition, is delivered from a centralised, national point of view and is arguably formulaic in delivery method. It is evidently not meeting the need of the industry in Dumfries & Galloway. The prescriptive approach of this kind of national intervention is to push pre-defined support at businesses. What industry needs, perhaps particularly so in rural areas, is responsive, flexible, locally connected support that focuses on overcoming the barriers to growth that rural businesses frequently encounter.

If the grassroots of our food and drink industry is not nurtured with relevant, timely and meaningful support then industry growth will remain concentrated in volume production in a few key sectors and key geographic hotspots.

The risk is that the wider potential of the industry will remain untapped, geographic and sectoral inequalities will continue to widen and food and drink businesses and sectors that are not an easy fit with national priorities will disengage from support and opportunities.

This is where a local approach to strategic development could make an impact - reversing that widening economic performance gap. It may be the case that opportunities will arise from the new South of Scotland Enterprise Agency, but in Dumfries & Galloway we have industry needs that require to be addressed now. Unfortunately we currently have virtually no resources with which to tackle these issues.

## **Inclusive Growth Support**

Meaningful sector support should be responsive to the full spectrum of the industry, not only to those businesses who can afford to prioritise membership of Scotland Food & Drink. The cost barrier to membership of Scotland Food & Drink, of £600 +VAT means that engagement with the national agency only becomes appropriate when businesses are already well established and ready to commence supplying in moderate volume. By this time, food and drink start-ups and SMEs have already made decisions that will determine their long term prospects, such as branding and packaging. Well resourced, easy to access specialist advice at an earlier stage would assist businesses in making decisions that unlock their potential to the full.

## **Additionality**

There is an industry perception that public sector support is focussed on quick wins rather than addressing structural challenges that the industry faces. For example, FPCM enables large capital injections from the public purse into large, profitable companies who already have relatively easy access to borrowing.

We would argue that government funds should be targeted on stimulus, on overcoming structural barriers to growth, facilitating inclusive growth and prioritising sustainable production. Public money should address and attempt to overcome market failure, rather than fuelling profitable businesses that are already highly successful in the marketplace.

A focus on ensuring public funds disperse support across a wider geographic and sectoral spectrum would help facilitate inclusive growth and unlock the potential of remote rural businesses and, importantly, the communities and the supply chains they support.

## **Needs Analysis / Avoiding Duplication**

A lack of full understanding of the support currently available at a local and regional level has led to government funding of food and drink support that is duplicating the support already delivered by some local authorities.

For example, the Targeting Innovation programme delivered through Scottish Enterprise is very similar to the ERDF Growth Advisory Programme (GAP) delivered by Dumfries & Galloway Council, however GAP is more accessible to businesses, both in terms of cost and geographic delivery. Therefore, Targeting Innovation is of zero relevance to any food and drink producer in D&G as a better and more accessible service is available locally.

Where effective regional support exists locally, there an argument for assigning a regionally proportionate share of resources from national programmes to local delivery mechanisms. This would provide best value use of government resources, by resourcing targeted industry support that addresses specific local and regional needs.

## **2. Is what is currently offered by the Scottish Government and Public bodies effective in terms of providing the support needed?**

It is effective in some sections of the industry, as evidenced by the growth of those sectors – distilling being a clear example. However narrow growth focussed on industry hot spots does not an inclusive, sustainable or resilient food and drink sector make.

There is an industry perception in D&G that some sectors / geographic areas benefit disproportionately from government support, due to the way access to support is structured.

This perception seems to be backed up by the data. For example in Dumfries & Galloway, despite food and drink being the largest economic sector in the region, accounting for 40% of Scotland's dairy output and close to a third of its red meat output, D&G based businesses received only 4% of the FPMC grants awarded (prior to the most recent round) and 0.8% of the EMFF grants awarded.

The cash-poor nature of the industry in the south west means that sector growth is stunted, with investment in growth challenging due to difficulties in accessing capital. This then results in inability to access government support by those businesses that arguably are most in need of support.

The centralised delivery of 'regional' support, channelled through a consortium of national organisations (Connect Local), seems to result in costly and inefficient delivery and ineffectiveness of intervention caused by remoteness from need. This has led to dissatisfaction from D&G based businesses and unwillingness to engage.

Due to the government financed national support having little or no relationship or engagement with many of the businesses in D&G, the national organisations therefore rely on local resource-poor initiatives, such as DG Food and Drink, to facilitate engagement and encourage participation. This is an unsustainable dynamic; where well-resourced national organisations are placing additional strain on poorly resourced local organisations due to a failure to meaningfully engage with local industry.

## **3. How can tax measures be used to help the Food and Drink sector deliver on food policy objectives?**

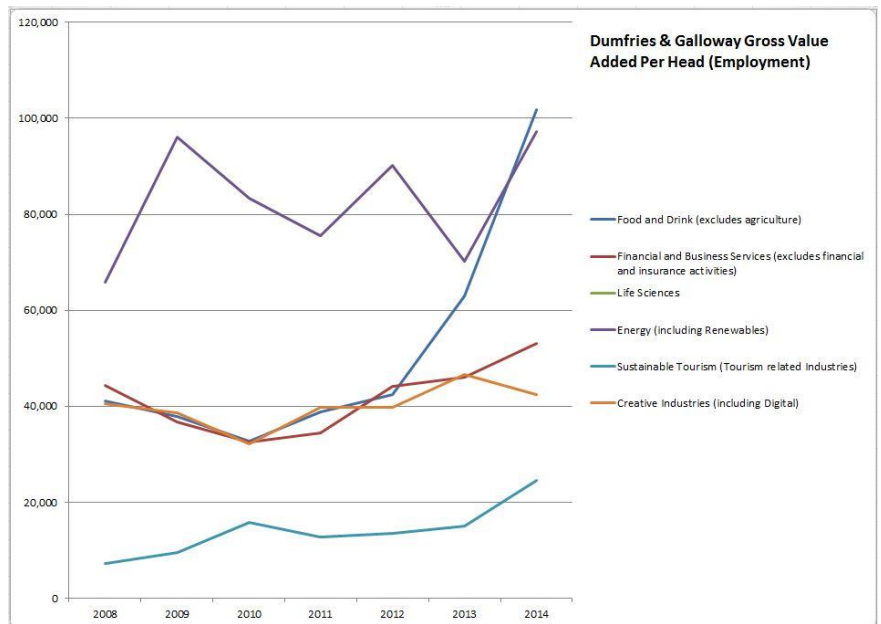
An increase in the VAT threshold would be transformative in helping businesses to transition from fragile sole trader to resilient SME with employees.

The current threshold depresses ambition for small food and drink producers. If it were set higher it would enable businesses to grow to the point where investment in production facilities, to improve productivity or recruitment of staff, to increase capacity, was achievable before hitting the VAT threshold. This would enable business owners to prove their business concept and have confidence in the commercial viability of the business proposition.

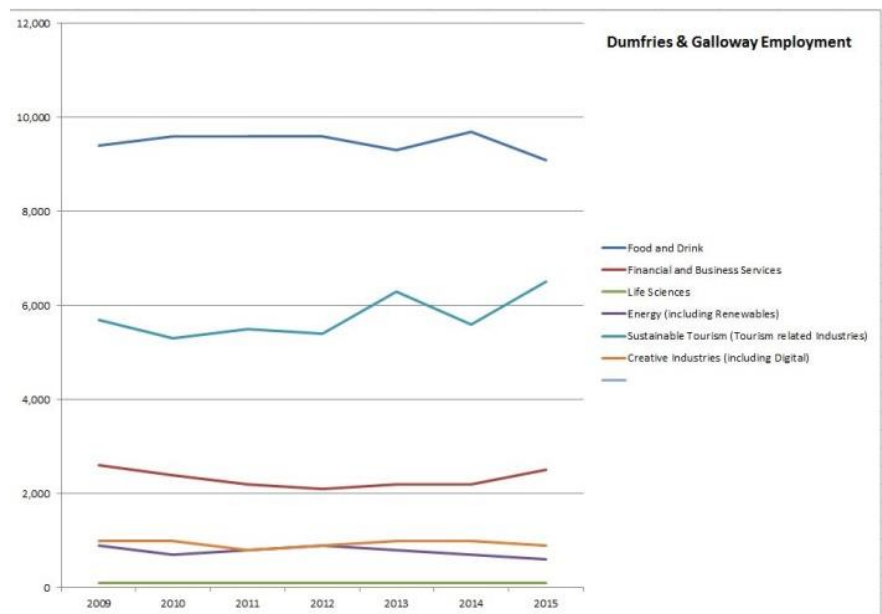
#### 4. What should be the over-riding objective(s) of support?

From a Dumfries & Galloway point of view, economic growth is our main challenge as our rural economy is facing an unprecedented economic crisis.

Food and drink is our most important regional economic sector, both by GVA and employment. If D&G's food and drink sector remains an afterthought in the national support programmes, our entire regional economy will continue to suffer and the economic performance gap will continue to widen.



While health and well-being are clearly important, our micro, small and medium producers should not be the targets of Government interventions to reduce market demand for specific categories of products. Luxury real dairy ice cream and hand-made chocolates are not 'healthy' by any means, but as occasional treats they are also not the cause of the obesity crisis.



In Dumfries & Galloway we have already noted one tablet producer cease trading due to concerns about a 'sugar tax' and we have several other producers who have indicated that they are delaying making decisions about the future of their business because of rumours of government intervention.

Improving environmental standards is a priority, but from a south of Scotland point of view, we would argue that encouraging sustainable, resilient and inclusive growth is the means to do this.

Food production is part of a wider environmental and rural economic system, and to focus on single measures evidences a failure to understand the more complex environmental, community and economic conditions in which these businesses operate.

The 'doubling turnover' focus of the 2030 ambition encourages growth in volume production over other measures. This will damage Dumfries & Galloway.

- Our rural economy requires growth in the value of the sector, with value retained earlier in the supply chain (at farm gate / producer).
- Our natural environment requires that growth be sustainable, and we have a number of excellent examples of innovative, circular food production in the south west.

At present we are not aware of these examples of best practice being on the radar of national support agencies. This is because the national focus is on growth and turnover, while the businesses are focussing on value retained / low environmental impact.

A less targeted, less output driven approach to understanding food and drink sector growth in all its forms would enable the value of a broader spectrum of businesses to be recognised.

Dumfries & Galloway's food and drink interface service  
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