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Rural Economy and Connectivity Committee
Comataidh Eaconomaidh Dùthchail is Co-cheangailteachd

Scottish Government's Draft Budget 2018-19

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Rural Economy and Connectivity Committee

To consider and report on matters falling within the responsibility of the Cabinet Secretary for Rural Economy and Connectivity.

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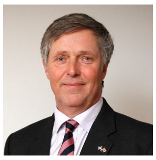

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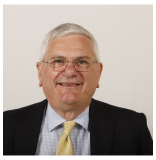

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Introduction

1. In this report the Rural Economy and Connectivity Committee sets out its findings and recommendations on those aspects of the Scottish Government's Draft Budget 2018-19 which relates to its remit. Chapter 12 of the draft budget contains proposed spending figures for the Rural Economy and Connectivity portfolio. This includes proposed spending plans for agriculture, rural development, food and drink, fisheries grants, forestry, digital connectivity and transport.

Committee Membership Changes

2. The membership of the Committee changed during our consideration of this report. Rhoda Grant MSP was replaced by Colin Smyth MSP on 9 January 2018.

Oral Evidence

3. The Committee acknowledged that the timetable for the Draft Budget 2018-19, which was influenced by the timing of the UK Government's Autumn Budget 2017, meant that it was highly unlikely that there would be an opportunity to take oral evidence from stakeholders following its publication. It therefore agreed to hold a pre–introduction budget evidence session to hear from stakeholders with an interest in the food and drink sector. This session, held on 15 November 2017, provided an opportunity for members to explore with witnesses whether, in their view, the Scottish Government is on track to meet its targets and objectives in supporting this sector; whether previous funding has been sufficient to help the sector achieve its goals; and what future levels of funding might be required.

4. The Committee subsequently heard from Fergus Ewing MSP, the Cabinet Secretary for the Rural Economy and Connectivity and Humza Yousaf MSP, Minister for Transport and Islands, on 20 December 2017, following the publication of the draft budget documents. In addition to questioning the Cabinet Secretary on the evidence received on food and drink, the Committee took the opportunity to explore a range of other portfolio issues based on figures contained in the published budget documents. These included EU support and related services, rural services, climate change mitigation, forestry, transport and digital connectivity.

Written evidence

5. The Committee received 14 responses to its call for written evidence on food and drink. In addition, the Committee received 3 general submissions on the Draft budget. Details of the submissions can be found in Annex B.

Timing of the budget publication

6. The Committee continues to experience the challenges that the timing of the publication of the Draft Budget presents. As with its scrutiny of the Draft Budget 2017-18, the timing of the publication of the Scottish draft budget in mid-December

created a timescale for scrutiny which was unrealistic. This severely undermined the ability of the Committee to conduct scrutiny of sufficient depth and quality. The very short period between the publication of the draft budget documents and the evidence session with the Cabinet Secretary meant that there was virtually no opportunity for stakeholders to formulate and submit their views to the Committee. It should be noted that only 1 submission was received from stakeholders following the publication of the draft budget on 14 December.

7. In the same manner as last year, the Committee made every effort to accommodate this extremely tight timeframe. The Committee is hopeful that this is the last year that it will be forced to adhere to this unhelpful and unrealistic timetable. It notes the findings of the Budget Process Review Group which calls for a substantial change in the way that the Scottish Government sets its budget and suggests a year round approach to budget scrutiny for Parliamentary committees. The Committee is keen to explore options which will allow more meaningful and thorough scrutiny, improve transparency, allow a consideration of longer term trends and the opportunity to exert genuine influence over the budget process.

Adviser

8. The Committee appointed Dr Juliette Wilson to assist in its scrutiny of the draft budget as it relates to the food and drink sector. It is grateful for the analysis and expertise provided by Dr Wilson throughout the budget process.

Evidence

General - Rural Economy and Connectivity portfolio

9. The Committee noted that the proposed total Rural Economy and Connectivity Spending Plans (Level 2) in the draft budget 2018-19 amounts to £2,806.4m which represents a circa £60m reduction from the total in 2017-18 of £2,866.6m. It notes that this is the only portfolio area within the Scottish Government which has shown an overall reduction in funding.

10. An explanation for this reduction was sought from the Scottish Government following the evidence session with the Cabinet Secretary, given that full details were not provided during the meeting. It explained in a written response that it has to work within a finite level of capital resources and prioritise projects within that total. This can result in increases and decreases in different portfolio capital budgets across different years.

11. The Committee notes the following details provided by the Scottish Government of the main areas within the Rural Economy and Connectivity portfolio where budget reductions (compared to the 2017-18 position) can been seen—

- **CAP compliance capital** down £11.2 million reflecting the profile of expenditure on the IT system;
- **Digital Strategy** down £76.5 million which reflects the profile of expenditure on digital connectivity projects. This will increase again in future years as part of the Scottish Government's commitment to invest £600m;
- **Motorway and Trunk Road Capital Land and Works** down £176.7 million which reflects the profile of expenditure on road construction, in particular the anticipated completion of AWPR and completion of the Kincraig to Dalraddy dualling project on the A9;
- **Forth Replacement Crossing** down £69.8 million which reflects the completion of the project and on-going contractual commitments; and
- **Travel Strategy and Innovation** down £34.9 million which reflects the profile of Glasgow subway modernisation funding agreed as part of its £246m total commitment to the project.

Food and Drink

General views of the impact of Draft Budget 2017-18 on support to the food and drink sector

Funding Allocation

12. Food and drink is one of the Scottish Government's seven areas of growth. This growth is being channelled through the Ambition 2030 initiative with the Scotland

Food and Drink Partnership, comprising industry, government, agencies and other partners. The aim of Ambition 2030 is to double turnover in the farming, fishing, food and drink industries in Scotland by 2030. Three pillars of growth have been identified for prioritisation. Some of these areas are more amenable to governmental budgetary support than others while industry itself may be able to provide financial backing to support some priorities. The Committee's objective in focusing its budget scrutiny on the food and drink sector was to consider whether sufficient and effective resources and support are in place to meet these growth targets.

13. This section of the report will focus on evidence relating to the sector in general before a more detailed scrutiny of support for the 3 pillars of Ambition 2030.

14. The public sector plays an important and diverse role in shaping the direction of the sector. Previous analysis has estimated that spending related to supporting, regulating and helping to grow the sector amounts to around £100m per annum. The picture of public funding is complex and wide ranging and it is very difficult to get an accurate picture of total funding levels for a number of reasons. Some data is not currently available, such as the Scottish Funding Council's (SFC) support for food related research through the Research Excellence Grant.

15. Some broader rural support (such as transport or broadband) will benefit food and drink among other sectors, but is not included in the estimate above. In addition, the definition of funding 'to support the food and drink sector' is broad. There is additional funding through indirect spend and some figures run over a number of years.

16. The Scottish Government's commitment to Ambition 2030 was restated in the Draft Budget, which noted—

> We will continue to support the growth of the food and drink industry and help it deliver its ambition to double its value to £30 billion by 2030. Our key focus is to promote locally sourced and locally produced food and drink to a range of markets by—
>
> - investing £7.5 million to support the delivery of the new industry-led strategy, 'Ambition 2030';
> - continuing to support businesses to invest and expand through our Food, Processing Marketing and Cooperation grant scheme;
> - sourcing more local produce through public sector contracts and investing £0.4 million to expand the Food for Life Programme in schools;
> - introducing a new supplier development programme to support small suppliers obtain third-party accreditation to help them target new domestic and international markets;
> - supporting more local producers to showcase their produce locally and nationally through new regional showcasing events and the launch of a new Regional Food Fund; and
> - progressing the Good Food Nation objectives through the development of the Good Food Nation Bill and the work of the new national chef. [1]

17. However, as noted above, it is very difficult to interrogate specific details of proposed changes in spend in the Draft Budget in relation to previous years. Proposed Scottish Government support for food and drink shows a drop of £1m from the 2017-18 budget to £5m. As noted above, support for the industry extends beyond the direct food and drink industry support to organisations including Skills Development Scotland (SDS), Scottish Enterprise, Highlands and Islands Enterprise (HIE), Food Standards Scotland (FSS) and SFC. However, it is not possible from the published budget figures or from the related Level 4 figures to identify levels of spend which relate directly to the food and drink sector; although these have been estimated and were submitted in a written response from the Cabinet Secretary in Table 1 below.

18. The Cabinet Secretary was asked to provide written evidence to provide further detail on any changes to the food and drink budget for 2018-19. In a written response he stated -

> Since 2014 the food and drink budget has been maintained at £5 million and has been set at this level again for 2018/19. The exception to this was in 2017/18 where an additional £1 million of capital was allocated to the budget increasing the overall line to £6 million. This capital element has not been directly allocated this year as there is sufficient provision elsewhere to support capital projects through the EU Support and Related Services line and the Fisheries Grants line. [2]

19. The Cabinet Secretary provided details of the food and drink budget and a note of the wider budgets that support the food and drink industry (below). In comparing these with previous years, those budget lines which can be tracked across seem to show very similar amounts as those for 2016/17. In some other cases the budget headings have changed making it difficult to read across any further. It suggests a similar sum of £100m total spend on supporting food and drink for 2017/18 as 2016/17.

Overall public sector spend to support the food and drink sector

20. **Direct Spend –** there is a broad range of organisations supporting the food and drink agenda through a mix of funding schemes or core activity – all of which are supporting the growth of the industry. This was recently summarised by SPICe to help the Committee understand the quantum on funding - headlines are below:

Table 1

Funding Source	2017/18**Some funding schemes, particularly EU ones, are multi-year and demand-led so we have highlighted the total allocation but then averaged out to give an annual figure
Scottish Government	£5m: Industry support Programme £66m: FPMC (Food, Processing, Marketing, Cooperation Grant scheme) – covering 2014-2020 £14m: EMFF (seafood processing) – covering 2014-2020 £8m: Strategic Research Programme
Scottish Enterprise	£2.7m: Account Management service to 315 businesses £3.9m: Regional Selective Assistance Grants £3m: Investment support £3m: Project support
Highlands & Islands Enterprise	£1.8m: Account Management service to 112 businesses £100k: Project spend
Skills Development Scotland	£2m: Modern Apprenticeship training programme
Scottish Funding Council	£37m: Teaching support provision for 7,000 FTE in colleges and 708 FTE in Universities
Food Standards Scotland	£15m approx. of operating costs
TOTAL SPEND	On average, around **£100m per annum** is spent by the public sector supporting the food and drink industry

21. **Indirect Spend** – other public funds are being used to support the wider industry, namely the support to the farming and fishing industries through:

CAP: Pillar 1	**£437m** per annum
EMFF: fishing fleet and aquaculture	**£40m** during the programme period 2014-2020

22. Witnesses who participated in the evidence session welcomed the Scottish Government's support for and prioritisation of the sector. The partnership between industry and the public sector was seen to be one that worked well. Of particular note was that the industry has developed significantly over the last 10 years. James Withers, from Scotland Food and Drink (SF&D) commented –

> Over the past 10 years, we have operated quite a deep partnership between the industry and the public sector, which has worked well. It is fair to say that there is a good level of contentment in the industry about the funding that is going into the sector.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, James Withers (Scotland Food & Drink), contrib. 7[3]

23. This partnership through the umbrella body of SF&D has been seen to be an extremely effective means of mobilizing the industry at a macro level, with an increase in turnover of 44% and exports by 56% over the last 10 years. Growth within the sector over the same time period has been at over twice the UK average. However, as will be highlighted in this report, there are continuing challenges to achieving the ambitious targets set out by the Government. These include:

- ensuring that working in this sector is an aspirational vocation and examining re-skilling and up-skilling to improve productivity;
- ensuring that success and growth in the sector translates into a fair share of profits for all in the supply chain, particularly at the producer end;

- overcoming structural barriers to growth; better capture of value-added within the supply chain through closer collaboration along the whole supply chain;
- expanding and diversifying markets and providing market support;
- increased collaboration with other sectors;
- innovating to develop capabilities for product development; and
- clarification for all producers of the support that is available.

24. In general, whilst welcoming the support of the Scottish Government for the sector, there was a view expressed by the majority of witnesses and most written submissions that the targets for Ambition 2030 needed an increase in overall levels of funding and also more longer-term support so that priority areas could be supported on a sustainable basis.

25. James Withers (SF&D) told the Committee that until recent years the rural economy budget did not contain a line for food and drink industry development. He said that whilst this support is now welcome, it sits at a modest level of around £6 million and could benefit from an increase to fit with the sector's growth ambition. He noted that -

> Given that we have an ambition for growth of about £14 billion or £15 billion over the next 10 to 15 years, it is worth thinking about that development budget. ... I would like that budget line to move northwards, because over the next year the action planning that we will carry out on the key priority areas will identify flagship initiatives and gaps in delivery. It might be a bit frustrating for the committee to hear that I do not yet have a top five things that we would like to invest money in, but the work is being done now: if we can move that budget line northwards as we identify opportunities and priorities, we will not lose a year trying to make a funding case—we will have funding earmarked to allow us to move quickly in a fast-changing environment.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, James Withers (Scotland Food & Drink), contrib. 7[3]

26. This view was echoed by others such as Chris Brodie (SDS) who said that –

> the backdrop of reducing budgets means that it can be difficult to find money to capture particular opportunities when they emerge.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Chris Brodie, contrib. 172[4]

27. Professor Morgan from the Rowett Institute added –

> We are already taking budget reductions, so we have been feeling the pain for a few years. As with a number of the other institutes in the rural sector that are funded by Government, the Rowett institute has been taking a 5 per cent cut each year, and we had flat funding before that. We have been experiencing that pain.
>
> The trouble with that continuing is that we will lose the necessary critical mass of the variety of researchers that we need to input into the innovation agenda that the industry requires.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Professor Morgan, contrib. 171[5]

28. The relationship between levels of funding and growth targets for the industry need to be considered within the wider economic outlook for Scotland, which continues to be uncertain (SPICe 2017). There is still a lack of clarity about the final outcomes of Brexit negotiations, as well as ongoing challenges in the north sea oil and gas sector and a projected decline in the working age population. The Scottish labour market is relatively strong, although earnings growth has not kept pace with inflation. Economic growth has been quite weak in recent times, which combined with more people in work, implies that Scottish productivity is low.

29. In its Economic Commentary published two days before the draft budget, the Fraser of Allander Institute stated: “The SFC has forecast economic growth of 0.7% in 2018, and generally has significantly more cautious Scottish forecasts for growth than other economic forecasters.” SFC predictions for growth in Scotland as a whole are of less than 1% per annum to 2022. Ambition 2030’s goal to grow the industry by doubling turnover needs to be assessed in the light of these broader economic forecasts.

30. When he appeared before the Committee to give evidence, the Cabinet Secretary was asked by members whether the Ambition 2030’s growth agenda of doubling the value of the food and drink industry to £30 billion within 12 years was realistic.

31. In response, the Cabinet Secretary said that the Scottish Government’s position is that these targets, whilst ambitious, are feasible and will be achieved in the main “by the private sector, with the public sector providing support.” He added that the role of the Government is “to focus on areas where the use of public money can provide added value. He also highlighted the importance of the role of the farming sector in contributing to growth, stating—

> There is a whole cohort of new-generation farmers, who are doing extremely well. They are taking advantage of opportunities, using new technology and farming in a greener fashion, and they are able to achieve a growth rate of more than 5 per cent.
>
> It is primarily the businesses in the sector and not the Government that will drive growth.
>
> Source: Rural Economy and Connectivity Committee 20 December 2017 [Draft], Fergus Ewing, contrib. 33[6]

Impact Assessment

32. Evidence from witnesses and written submissions argued for the need for a more systematic analysis of the impact of current and past levels of support to measure

effectiveness and provide guidance to help prioritize future levels and focus of support. This was succinctly put in the written response from Aberdeenshire Council—

> It is difficult to measure the value of overall public spend on food and drink in Scotland. Without a detailed assessment of the output generated by that expenditure it is a real challenge to define spending priorities to optimize value-add. Any such exercise should also analyse and factor in specific current sectoral challenges and opportunities (eg Brexit – so far as can be predicted).
>
> Source: Aberdeenshire Council, 2017[7]

33. Similarly, Danny Cusick of Scottish Enterprise noted the criticality for impact assessment of funding in order to prioritise future funding allocations—

> The key thing is to support opportunities. Scottish Enterprise does not start a year with a food and drink budget per se. We will have commitments for projects that we are supporting through some of our programmes or some of our company activity. However, our funding is based on prioritisation that is demand led and evidence based. If we can demonstrate that contributing to a particular project gets a significant return on our investment, that will be the deciding factor in considering where to put our resources.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Danny Cusick, contrib. 211[8]

34. It therefore appears to the Committee that there is a need identified to attempt to quantify the impact of direct and indirect funding allocations to the sector. Without this it is difficult to prioritise funding allocations.

35. The Committee welcomes the continued commitment to Ambition 2030, the development of a Good Food Nation Bill, and post-Brexit food policy. However, in order to support this, the Committee notes the need for an agreed and accurate picture of the resources the government provides to "food and drink", and what that money buys. Without this, the Committee has difficulty in adequately scrutinising whether effective resources and support are in place to meet these targets.

36. While acknowledging that the Scottish Government must prioritise spending based on the overall budgetary constraints, the Committee notes that the resources which appear to be provided to support the food and drink sector have remained broadly static in recent years and have not been increased in this year's budget following the launch of the Ambition 2030 initiative.

37. 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.

Clarification of support

38. A number of witnesses called for the need for clarification of the support that is available to the sector. Additionally, there is a perception from some parts of the sector that support is skewed towards the central belt and larger and more successful producers and that smaller and more peripheral stakeholders are disadvantaged.

39. As noted above the picture of public funding relating to food is complex and wide ranging. Public spending to support and regulate the food and drink sector comes from a number of contributors including the SFC, FSS , Scottish Enterprise, the Scottish Government direct funding to Food and Drink and funding for research, SDS, HIE, Visit Scotland, Rural Cohesion food industry support as well as a number of EU grants and Procurement of Scottish food and drink.

40. There was consensus from witnesses and in written submissions that the support system is complex and that streamlining this would help members of the industry access funding. For example, James Withers of SF&D noted—

> The situation is more complex in Scotland than it is in other countries. In Ireland and New Zealand, for example, there is one figurehead public sector body, through which all the funding that goes into the farming, fishing and food and drink sectors is spearheaded. In Scotland, we have a more complex landscape with a number of public sector actors and industry bodies... it would be helpful to have greater clarity about the areas of funding and the scale of investment.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, James Withers (Scotland Food & Drink), contrib. 7[3]

41. Andrew Richardson of the Society of Independent Brewers (SIBA) added—

> My company is account managed by Scottish Enterprise, and one person there advises us on what support is available. The situation is a bit more difficult for people who are not account managed, and there is a bewildering range of opportunities.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Andrew Richardson (Society of Independent Brewers), contrib. 15[9]

42. Mr Richardson also made the point that this situation is particularly complex for smaller producers to navigate through stating—

> Our average member has a two to three-man business: their noses are to the grindstone. They do not have time to spend looking around, because they are running their businesses.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Andrew Richardson (Society of Independent Brewers), contrib. 15[9]

43. It was noted that this lack of understanding of support structures means that there are existing funding streams and support for the industry that may not being used as fully as they could be. Professor Schaschke from Abertay University stated—

> It is important that industry, no matter its size, fully understands what support can be gained from the university sector. At the moment, that information is not utilised to its full potential by a long way.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Professor Schaschke, contrib. 214[10]

44. The success of the innovation support service, *Make Innovation Happen,* was cited as a good example of a way of enabling firms to identify and access support from the variety of available sources. David Thomson of the Food and Drink Federation Scotland (FDFS) said –

> Last year's launch of make innovation happen—the innovation support service, which is backed by more than £1 million from Scottish Enterprise and Highlands and Islands Enterprise—was a way to declutter the innovation landscape and to make it easier and simpler for firms to access support. There is now just a phone line for people to talk to specialists. On the back of that, projects arise and money is available to support them.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, David Thomson (Food and Drink Federation Scotland), contrib. 21[11]

45. Responding to these concerns during evidence, the Cabinet Secretary said that "it is inherently complex, but I do not see it as a minefield; rather, I see it as a successful partnership of the Scottish Government, Scotland Food & Drink and individual companies working together." He added, "I think that there is an ocean of opportunity, which Scottish businesses are grasping, with our help."

46. In addition, in many written responses there was concern that there is a need for much clearer regional and sectoral breakdowns of funding to understand current funding areas and to help prioritise funding effectively and avoid wasteful duplication. Funding was seen historically to have been focused on key sectors and in key geographical regions. There is a perceived disconnect between the needs of smaller geographically remote local producers and central support structures, as noted in written evidence by Dumfries and Galloway Council—

> 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. …Where effective regional support exists locally, there is 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. [12]

47. A number of smaller producers who provided written evidence, argued that the funding streams available were not tailored to their specific needs. The following comment from Waulkmill Cider is representative of those made in a number of submissions from smaller producers—

> My business is doing well and is achieving industry recognition in the fields of rural interest, environmental sustainability and in the UK-wide food sector. However, my business appears not to be a good fit with the Scottish Government's' priorities and support mechanisms for food and drink sector support. This would seem to suggest a disconnect with the industry and with Government / Scottish industry organisation priorities…If the government is putting money into food and drink, then this money is totally failing to reach the businesses and organisations who can actually make a difference to businesses like mine in the south of Scotland. [13]

48. 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.

49. 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.

50. 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.

Focus of Funding Priorities

51. The Committee discussed with stakeholders the key focus of spending priorities. Ambition 2030 clearly prioritises growth of the sector over other outcomes, as evidenced through added value. The goal of Ambition 2030 is to grow the sector's output to £30 billion. However, this is a hugely diverse sector, with widely varying rates of productivity at producer level and along the supply chain. The sector as a whole is dominated by small businesses. As noted by David Oxley of HIE—

> It is worth pointing out that there are more than 5,000 food and drink companies in the Highlands and Islands but only 80 of them are bigger than small or micro.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, David Oxley, contrib. 202[14]

52. The focus of spending priorities will have direct implications on the feasibility of the growth aspirations of Ambition 2030. This was highlighted by James Withers of

SF&D during discussion of the food processing, marketing and cooperation grant scheme. He said—

> Do we give 10,000 businesses some money to buy an oven or do we look at a couple of transformational processing capacity areas in which we need to invest? As we go forward, we might need to look at how we prioritise some of the investment. Government sometimes has an instinctive desire to spread money thinly so that everyone is a little bit happy, as opposed to prioritising the key investments. The challenge for us in the industry is to help the Government with that and to make some of those difficult decisions ourselves.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, James Withers, contrib. 29[15]

53. In addition, a written response from Dumfries and Galloway Council argued that growth of the industry as a whole needs to focus on inclusivity—

> 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. [12]

54. Written submissions also drew attention to the fact that the Scottish Government is committed to broader aims than the growth targets of Ambition 2030, such as the Good Food Nation Bill. As noted in a written submission from Nourish Scotland –

> It is important to scrutinise the use of public money in the round to support our Good Food Nation aspirations, and recognise that we have interlinked objectives, for example to grow food and drink production, and the financial resilience of the sector; to reduce the adverse environmental impacts of food production, both in Scotland and internationally; to improve the health of the people of Scotland through improving our diet and ensuring the safety and quality of food; to reduce dietary inequalities and household food insecurity; to strengthen our national food cultures and reputation. [16]

55. 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.

56. 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.

People and Skills Support

57. Skills are a key pillar of the growth aspirations of Ambition 2030. In response to a question on how the industry could achieve the doubling of output to £30 billion by 2030, Professor Carl Schaschke of Abertay University said—

> First, the primary requirement is that the industry will need people with the right skills. We would take the range of products that are available, but we will need to be able to process them in Scotland with the right people doing the right things, and with the right technologies.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Professor Carl Schaschke (Abertay University), contrib. 131[17]

58. David Oxley of HIE stressed the interconnection between skills support and innovation as a key driver of productivity. He said—

> Growth also needs to be about capacity. Productivity improvements through becoming more innovative will also be absolutely essential. The people component will be a challenge; we have talked about potential staff issues. If we can get investment in innovation so that we become more process driven and productive, we could grow the sector and grow the value of the jobs within the sector, which will be important in attracting more people.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, David Oxley (Highlands and Islands Enterprise), contrib. 133[18]

59. Evidence presented by witnesses and in written submissions discussed the effectiveness of current funding to the sector. An interrogation of budget lines from 2016-17 estimated that approximately a third of the total funding to the Food and Drink sector is spent on people and skills. This was primarily provided by the SFC through their support for colleges and (higher education institutions (HEI). In 2016-17, over £37m of SFC's £38m contribution was to this strategic Pillar, with the balance being allocated to innovation.

60. With the current funding structures it is impossible to estimate how this has changed for 2017-18, but it is noted that the direct funding for food and drink from the SFC for 2017-18 has remained stable at £37m. Funding directly to SDS for the Modern Apprenticeship (MA) Training Programme food for 2017/18 has also remained stable at £2m.

61. Ambition 2030 highlights the need to encourage new entrants, increase retention rates and increase diversity of the workforce. Witnesses welcomed the support from the Scottish Government to support promotion of working within the sector as an aspirational career, through work in partnership with industry, schools and colleges.

62. Particular mention was made of work with SDS, the College Development Network and the SQA to ensure that training courses are aligned with industry needs. Examples of successful partnerships included the work between the SFC and SDS in building the Food and Drink Skills Academy. This has a key role for employer involvement in identifying industry needs. It was also noted that the SFC has been highly successful in their work through the Innovation Centres Programme in the development of facilities like the Scottish Aquaculture Innovation Centre.

63. Witnesses and written submissions pointed to the critical role of SDS in helping the industry to develop people with the skill set it needed. SDS was seen to be working extremely effectively in partnership with the industry. The Apprenticeships Framework was cited as a highly successful means of developing frameworks for apprenticeships that meet the needs of the industry. Chris Brodie of SDS noted that SDS funded “about 1,100 MA starts last year, and there were about 3,000 MA's in training across the sector. SDS have developed a new MA in craft brewing and work is underway to develop new foundation apprenticeships such as the new foundation apprenticeship in food manufacturing.” He noted that key to the success of the MA scheme is the co-investment between SDS and industry and a demand-led approach. He argued that the strong relationship with SF&D and other industry bodies was vital to its success.

64. A written submission from NFU Scotland highlighted the importance of supporting the work that SDS do to facilitate skills development—

> It is vital that Scottish agriculture continues to upskill its workforce and attracts new entrants into the industry, and investing in skills is a key vehicle to deliver this. There is a significant amount of work underway between NFUS, education providers, training bodies and SDS to develop agricultural apprenticeships and practical qualifications that will support young people to pursue a career in the industry. [19]

65. There was consensus that this strong alignment with industry was highly important. For example, Professor Morgan of the Rowett Institute noted—

> How we entice individuals into the industry is a very important question, and we have been giving it a lot more thought. The Rowett institute, in which I work, is part of the University of Aberdeen. We are an ancient university, and we are now looking much more at how we can engage with the food and drink industry in order to understand its problems.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Professor Morgan, contrib. 191[20]

66. A key factor raised both during the REC Committee evidence session and in written submissions was the need for skills training and up-skilling of labour. Andrew Richardson (SIBA), noted that, “At the apprenticeship level, there is a lot of desire in the industry for skills training, and we would welcome that.” Scott Landsburgh of Scottish Salmon Producers' Organisation (SPPO) added—

> We have an ageing workforce in the salmon industry, which has been going for 40 years. We have a lot of people over the age of 25 whom we would like to enter into a modern apprenticeship programme, because a lot of them now require skills that are different from the skills with which they originally entered the industry. It would benefit us enormously to upskill the over-25s in this country.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Scott Landsburgh, contrib. 52[21]

67. A key skills gap identified was in science and engineering skills. David Thomson (FDFS), noted –

> The affected areas range from new product development to machinery engineering and people who hit things with hammers and know precisely where to hit them. That is absolutely the area in which the industry tells us that there is a great need, which is why we are focusing our attention on those types of qualifications.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, David Thomson, contrib. 54[22]

68. Another key challenge raised with the Committee relates to a need to increase the diversity of the workforce. Chris Brodie of SDS highlighted how this was apparent in relation to apprenticeships, stating that—

> gender balance is a challenge across apprenticeship frameworks. I am sure that there are similar challenges in college and university provision. We are absolutely committed to addressing that issue. We work with a number of organisations, including Equate, to address some of the root causes. The challenges very often happen in the school system or happen at a very early age, so addressing the gender imbalance is a key priority, but will not be simple.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Chris Brodie, contrib. 154[23]

69. In response to a direct question from a Committee member, Mr Brodie provided written evidence of SDS work to address this through the MA Scheme. There are a number of facets to this including tracking MA start-up rates, work through Skills Improvement Plan (SIP) and the Improving Gender Balance Project.

70. Witnesses also discussed a number of mechanisms that have been developed to try and address this particular challenge. For example, Professor Schaschke of Abertay University noted –

> In the university sector, we are looking at the gender balance through Athena SWAN—the scientific women's academic network—for example, and Equate. Aurora programmes have been mentioned. It is true that food-science programmes attract larger numbers of women than men, but engineering, which is also associated with food innovation, attracts more men than women. There has historically been an imbalance: we are endeavouring to address it in order to make the various options more attractive to both genders.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Professor Schaschke, contrib. 155[24]

71. Dr Fancey of the Scottish Funding Council outlined the work that organisation is involved in in partnership with SDS, "through our gender action plan, to rectify both imbalances; that is, the excess in men applying to engineering courses and the excess in women applying to other courses."

72. Responding to concerns of the need to support Scottish firms obtain the workforce they need, the Cabinet Secretary outlined the broad support for training and education provided by the Scottish Government and their support of SDS. However, when challenged on how this was achievable under current budget constraints the Cabinet Secretary reiterated his view of the role of the Government support to this sector, stating—

> The overall budget reductions are as I have said they are. I have already made it clear that the achievement of our ambitions will be delivered largely by businesses. That is how an economy works. Government is not there to fund everything; it is there to assist and to provide essential public services that everybody relies on. It is not there to create economic growth on its own.
>
> Source: Rural Economy and Connectivity Committee 20 December 2017 [Draft], Fergus Ewing, contrib. 49[25]

73. 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.

Support for innovation

74. The Committee's attention was drawn to the fact that current direct funds for innovation are relatively small and funds for research have been falling in real terms year on year. Less than 10% of the financial support from the government and public sector bodies to the food and drink industry is spent on innovation. Research and development spend in the food and drink sector is much lower than in other sectors of the economy and much lower than spend on research and development in food and drink by other competitor countries.

75. Most funding for innovation comes from the Scottish Government Research support with some also coming from Scottish Enterprise and Scottish Government direct grants to Food and Drink. As noted above, with the current funding structures it is impossible to estimate how this has changed for 2017-18, but it is noted that the direct funding for food and drink from the Scottish Government Research support has remained stable at £8m. It is impossible to estimate changes to funding from other funding sources.

76. The Committee discussed the current levels of support for innovation and investment across the industry and the ways in which innovation could be encouraged. There was a consensus amongst witnesses that innovation needs to be a priority if the ambitions for 2030 are to be realised. Ambition 2030 talks explicitly about the need for stronger innovative partnerships between our research centres, government and industry. Dr Fancey of SFC, argued that this public private partnership was key to driving innovation and getting best value for public money out of core public funds—

> I want to highlight how we are using public money with private money, which is an interesting combination. The big salmon producers, who have been a focus for discussion in the meeting, invest a very high fraction of their resources in their innovation future through the innovation centre that we have set up. We are not subsidising that work to a very large degree, and they are investing in their own future. That seems to me to be a good relationship to have with an industry that is doing well.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Dr Fancey, contrib. 208[26]

77. Some witnesses and those who made written submissions raised concerns about the relatively low levels of funding for innovation from the Scottish Government. Funding for innovation in the food and drink sector through Scottish Enterprise for 2016-17 was only £250,000, although Danny Cusick of Scottish Enterprise commented that the pipeline of confirmed R&D projects is worth more than £2.5 million. He acknowledged that there was a change in how they are trying to stimulate innovation activity across the sector.

78. A key initiative in this sector is '*Make Innovation Happen*', which was launched by the Scotland Food & Drink Innovation Working Group in May 2017 as the first step towards Ambition 2030. It is an initiative to accelerate market-driven innovation across the whole of the food and drink supply chain, and to open up new markets and revenue streams. It is delivered through a coalition of key public sector and industry bodies working together collaboratively with £1.1m of funding from HIE and Scottish Enterprise.

79. The new *Make Innovation Happen* provides food and drink businesses in Scotland with a single, streamlined access route to help them innovate. This service includes support for both incremental and disruptive innovation and is open to all businesses across the supply chain.

80. Whilst Committee members acknowledged the benefits of this initiative, Danny Cusick of Scottish Enterprise was questioned on the feasibility of making much of an impact with such a small budget. He noted that this initiative was intended as a seed-funder of innovation, and said—

> That budget is really to be used to act as a catalyst, a stimulus and a feeder. The key funding for projects will come from our existing large grants and R and D mechanisms.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Danny Cusick, contrib. 223[27]

81. Innovation in food and drink is an area where the Scottish sector is seen to be behind its competitors in Europe. A Committee member cited the investment Iceland has made in its fisheries equipment as an example, referring to a visit he had made to a vessel that was both a processing and freezing trawler; which essentially carrying out end to end production on board. He suggested that "Iceland has taken investment, innovation and the use of technology in food production to the next level."

82. James Withers of SF&D agreed with this suggestion, arguing –

> It feels like there is a need for revolution rather than evolution in the innovation landscape. The issues around big data, artificial intelligence and robotics mean that there is a need to think hard about investment.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, James Withers, contrib. 116[28]

83. Building on this theme, Professor Peter Morgan of the University of Aberdeen argued –

> It is obvious that we cannot do more of the same. We have been very successful over the past few years, but there has to be a shift. Innovation is an undeniable requirement, and not only because of the target in the "Ambition 2030" strategy document. Brexit going on in the background will be another driver for change and innovation.
>
> A third component is that a good food nation bill, through which we want to change people's diets, is coming along. If we change diets, the food industry will have to respond to that. That will create a great deal of innovation requirements and needs, and people will be needed to deliver them.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Professor Peter Morgan (University of Aberdeen), contrib. 139[29]

84. The Committee also discussed with witnesses ways to support innovation. Rising automation, particularly in processing could be a key facilitator of the growth ambitions of the industry, but concerns were voiced that to achieve this would need long term strategic funding. For example, Patrick Hughes of Seafood Scotland, noted—

> The initiatives that help need long-term strategic funding. For example, we know that the European maritime and fisheries fund programme has a limited life. We need to have a system to replace it in place in good time, so that we are not left with a funding gap and so that initiatives can be progressed.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Patrick Hughes (Seafood Scotland), contrib. 12[30]

85. In the salmon sector, innovation was argued to be a key to growth in production. Scott Landsburgh of SSPO stated—

> I will speak for the salmon sector alone. We have unfulfilled demand. I know that we cannot do so, but if we could double our production overnight, that salmon would all be in the market tomorrow at the same price: there is undersupply. That is one of our challenges.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Scott Landsburgh, contrib. 17[31]

86. It was noted that there are different needs for support for innovation across industry sectors. Patrick Hughes (Seafood Scotland) stated –

> In the engagement sessions, we are asking the industry what it is looking for support in. It varies. The processing sector is looking for help in innovation and automation. We are looking at a reduced workforce. On average, 70 per cent of our workforce in north-east Scotland is a migrant workforce. If businesses in that sector are to make a sustainable future, they will have to look at automation, and that is challenging for businesses that work to tight margins.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Patrick Hughes, contrib. 36[32]

87. Danny Cusick (Scottish Enterprise) added –

> The complexity of the science is part of the consideration. As we see from the information, almost 17,000 companies in Scotland are classified as food and drink companies. The vast majority of those companies are in the agriculture sector, followed by the fishing sector, then food and drink manufacturing and processing, which accounts for only about 6 per cent of the company base, but generates 75 per cent of the gross value added and is responsible for almost 100 per cent of exports. Across that wide spectrum of activity across the sector—from primary producers to manufacturing—there is a great productivity issue. At one end, there is a highly efficient drinks sector, which represents £200,000 per employee per annum and, at the other, is the primary agriculture sector, which represents £14,000 per employee per annum.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Danny Cusick, contrib. 143[33]

88. He argued that a key challenge in growing the sector will be in tackling this productivity challenge and issues related to this.

89. Professor Morgan (Rowett Institute) pointed out that a key issue in terms of research for innovation was firm size. He said—

> Part of the issue of the uptake, or of the investment going into research that could be picked up by industry in the food sector, is that a lot of the companies are very small and getting some of the innovation and large-scale projects in is quite difficult. The common interest groups are an important development, as they bring together a number of parties so that the research can make a greater impact. That vehicle will make a big impact and could be transformational for the future with regard to the 2030 goals.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Professor Morgan, contrib. 225[34]

90. A key factor raised by witnesses was the de minimis rules that limit investment in industry by the public sector. These are complicated and in particular, there are differences in the levels of public sector support allowed to agriculture, agriculture and fishing, and agriculture, fishing and manufacturing. They are particularly low for the primary sector.

91. 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.

92. 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.

93. 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.

Strategic Research

94. Strategic research to ensure the safety and efficiency of primary production and innovation throughout the entire supply chain is an essential component of Ambition 2030. There are six institutes funded by the Scottish Government to undertake research to underpin the agri-food sector. This year all the institutes were brought together under a single umbrella called the Scottish environment, food and agriculture research institutes (SEFARI). This programme of research at key partner institutions is a good example of a collective approach to R&D across the entire supply chain. It provides long term underpinning research to the sector and builds strength in expertise and is working with SF&D to discuss ways in which it can help deliver Ambition 2030.

95. In addition, these institutions have shown that they can successfully lever additional investment from UK Government, the EU and industry. They also provide key inputs to the Good Food Nation Bill. The economic benefit of SRP has been estimated to be £151.8 million GVA to the Scottish economy in 2016 (Biggar Economics 2017).

96. Strategic research was argued to be a key factor in increasing efficiency and reducing waste in production and thus increasing value in the sector. Professor Schaschke of Abertay University stated—

> Another dimension that we have touched on is how we utilise our waste. Half the food is consumed, but what do we do with the other half? How can we use it better? Production of biofuels and better use of food in the first place, for example, are other dimensions that we can look at. It is not just about needing more raw materials.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Professor Schaschke, contrib. 141[35]

97. Professor Morgan (University of Aberdeen) added –

> a lot of the research that is going on is about trying to make the agriculture system more efficient through better breeding and selection, and through reducing disease and waste. Innovation will occur in many such drivers to enable us to get more out of the system.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Professor Morgan, contrib. 142[36]

98. 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.

99. 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.

Supply Chains

100. The third key pillar of Ambition 2030 is market driven supply chains. Over 50% of the funding for the Food and Drink industry is allocated to supply chain support. In addition to EU Food processing, marketing and co-operative support of £24.5 million from 2014-2020, the key support for this pillar comes from FSS and Scottish Enterprise. It is noted that the direct funding from FSS is at similar levels to 2016/17, at £15 million. This funding is allocated to support issues with the supply chain. The key focus of FSS is on the delivery of official controls, monitoring, enforcement and guidance. This is done in partnership with the Scottish Government, SEPA, local authorities and public analysts amongst others.

101. Historically, Scottish Enterprise has also allocated the bulk of their funding support to this pillar. In 2016/17 this was £11.5 million out of £14 million. Total funds allocated to Scottish Enterprise in the Draft Budget for 2017/18, show reduction in funds to £12.6 million. However, on current draft budget funding information it is impossible to estimate specific allocations to this Pillar from Scottish Enterprise. The funds from Scottish Enterprise for food and drink provide economic development support in the form of grants, assistance awards, assistance with business efficiency and market development and digital strategy business infrastructure. It is impossible to estimate changes to funding from other funding sources.

102. Market Driven Supply Chains (MDSC) is a project focused on building supply chain capability and capacity and developing practical solutions to overcome barriers in accessing key UK and export markets. MDSC Phase 1 was co-funded by Scottish Government and Scottish Enterprise (£1.6m project included £800k from SE over 4

years) ran between 2013-March 17 delivering 28 supply chain projects and increased sector turnover by £15m (against target of £12m total) and GVA by £5m (against target of £3m).

103. MDSC Phase 2 runs from June 2017-2020 and is aligned to 'Ambition 2030'. The project is managed by SE and is co-funded between Scottish Government, Scottish Enterprise & HIE. It is anticipated the new phase will deliver even more ambitious impacts through 20 supply chain projects of scale which will increase turnover by £24m and GVA by £9.6m. (£1m project includes £400k from SE over 3 years).

104. Witnesses were asked about the allocation of funds to support market driven supply chains and the ways in which the industry could be supported. A number of related issues of concern were raised. It was acknowledged, that despite levels of funding, this was an area that had not seen enough prioritization in the past. The comment from David Thomson (FDFS) is illustrative of views of both witnesses and those who submitted written submissions –

> ...there is still a massive opportunity to support supply chains and to do more to shorten them where it is appropriate.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, David Thomson, contrib. 66[37]

Collaborative Supply Chains

105. A key prioritization under this pillar is the use of funds to encourage collaboration across supply chains. More collaborative and equitable supply chains are seen as key to growth and profitability in the sector. Sharing knowledge across the sector and forging closer links with research bodies to translate research outputs into practical actions will increase supply chain efficiency and added value to the sector as a whole. This will then give producers capabilities to grow both new markets and develop long-established markets.

106. Many witnesses discussed the fact that although the industry as a whole has seen impressive growth records, this is still an industry with a wide disparity in profitability and margins across the sector. A key facet of Ambition 2030 is to increase profitability and margins for producers in this sector. As discussed in the evidence session with stakeholders, average incomes in this sector are very low and evidence from the Farm Business Survey suggests that 36% of farm businesses are operating at a loss.

107. James Withers of SF&D, in response to a question asking about the adequacy of levels of funding to the sector, replied—

> That question cuts to the heart of the fact that although we have a booming food and drink industry, not enough farmers are feeling the effect of that. Scotland has among the highest beef prices in the world, yet many producers—hill producers, in particular—will struggle to achieve profitability this year.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, James Withers, contrib. 74[38]

108. Witnesses pointed to the importance of the work that is funded in this area particularly with producers to encourage collaborative working across the supply chain. They also noted that historically, the UK was far behind other countries in

levels of co-operation and collaboration in the sector. The Scottish Agricultural Association was mentioned in particular by a number of witnesses, as an example of an organization which encouraged cooperation. David Thomson (FDFS) noted—

> ...one of the key areas of the ambition 2030 strategy that we have really focused on is ensuring that the work on supply chains results in farmers and fishermen feeling that they are part of the great success of the food and drink industry, as there has been a lack of that over the past few years. The work by the Scottish Agricultural Organisation Society and a range of others on co-operation and working with the supply chain is fundamental to the success of the ambition 2030 strategy.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, David Thomson, contrib. 66[37]

109. James Withers (SF&D) added –

> We cannot encourage co-operation between farm businesses enough. SAOS does a huge amount of work in fostering co-operation and collaboration. Even though some sectors are co-operating very effectively, the UK is probably 10 or 20 years behind other countries when it comes to agricultural co-operation.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, James Withers, contrib. 74[38]

110. Funding for Scottish Agricultural Organisation Society (SAOS) comes from industry funding from the Scottish Government. Again, it is impossible, from currently available information to ascertain the changes in budgets to this association. The fact that Scottish Government support to food and drink has decreased from £6 million to £5 million from the budget in 2017/18 to the draft budget for 2018/19, leads to the assumption that funds to SAOS have at best remained stable in monetary values and fallen in real terms.

111. Witnesses discussed other funding streams available to support supply chain collaboration. Key resource streams included the funding to SAOS and also the newly established project on Market-driven supply chains, funded in partnership with industry. It was argued that these are a very effective means of helping the sector, both in terms of resource streams and also longer-term capital injections, with strong multiplier effects of initial funding injections.

112. James Withers (SF&D) discussed the range of funding streams that are particularly related to supply chain needs. Examples included the important work that SAOS do in brokering relationships between manufacturers and primary producers and the Market Driven supply chains project co-ordinated by Scottish Enterprise. Also important are capital investment streams such as the European FPMC, which he said is an absolutely critical funding stream. He cautioned that as we leave the European Union, we will have to find a mechanism to continue those capital injections to the right projects at the right time. He said “that scheme has really helped to drive on growth over the past few years.”

113. Supporting co-operative ventures was seen as a particularly important way of helping smaller producer access markets through achieving economies of scale and scope. Danny Cusick (Scottish Enterprise) argued—

> Co-operatives have an important role across the supply chain, and there are good examples of that. For example, the Scottish Craft Distillers Association got together about 40 small craft gin makers to collaborate more closely with one another and to consider how to access markets not independently but collectively. Scottish Craft Brewers has done the same thing. We have also worked with the raspberry producers association in the UK to look at various strains on the market-driven supply chain.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Danny Cusick, contrib. 201[39]

114. David Oxley (HIE) noted that collaborative ways of working and marketing together and co-branding or umbrella branding can enable producers to achieve critical market mass and market presence –

> There are vast numbers of small businesses, and it is challenging for some of them to get to market. We have seen great examples of small producers getting together. The one that springs to mind is the Argyll food producers association, which effectively markets a variety of products using "A taste of Argyll"-type branding and which goes to events and shows to try to promote that. That association provides a lot of benefits. Producers can share skills, experience and knowledge and they can cross-sell.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, David Oxley, contrib. 202[14]

115. Dr Fancey (SFC), discussing research funding streams to the sector, again pointed to the benefits of working collaboratively and in particular that it can be a highly efficient way of using funding –

> One thing that we have learned is that the smallest companies benefit from doing that together in clusters. Interface now takes a sectoral approach and has established common interest groups in the food and drink sector that allow groups of very small producers—cheesemakers, distillers, rape seed oil producers and so on—to come together to work with universities and colleges to address common problems. About 200 companies have taken advantage of that clustering approach.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Dr Fancey, contrib. 206[40]

116. A second key suggestion made to the Committee was that funding should be used to help keep as much value-added within the supply chain as possible. There was agreement amongst witnesses that Scotland's processing capacity needed support. Again, concerns were raised about the increasing abilities of the sector to access the FMPC. Patrick Hughes (Seafood Scotland) illustrated the importance of this in his sector. He said—

> Shorter supply chains are vitally important, especially in the seafood sector. At the moment we have an issue in the processing sector with reduced capacity. There is ever-reducing capacity, and we need to reverse that trend.
>
> ... In Peterhead and Lerwick in particular, our markets are reinvesting in the fish auctions. If we are not careful about our processing ability and capacity, the product will flow through Scotland and go somewhere where it can be processed. We need to make sure that we capture that supply chain in Scotland, and that links back to transportation and the need for investment in the industry.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Patrick Hughes, contrib. 72[41]

117. For some sectors, a key way of enabling this is through economies of scale and centralized processing. For others, supporting smaller, more localized facilities were felt to be more appropriate. James Withers (SF&D) argued –

> I think that there is a delicate balance between having local processing facilities and Scotland-wide processing facilities. I think that the priority is to add as much value as we can to our raw material in Scotland—not to have products leave Scotland to be processed and then come back in. There are opportunities to do that in a number of ways. That has been talked about for some time in the red meat sector. That said, having smaller processing facilities at a very localised level can be viable in some circumstances, as it really enhances the provenance story behind the product if it is produced, processed and sold in an area.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, James Withers, contrib. 67[42]

118. 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.

119. 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.

120. The Committee notes the critical role of the grants through the FPMC and SMFF schemes to facilitate this and welcomes the Scottish Government's assurances of continued commitment to these.

Market Driven Supply Chains

121. A second key strand of this pillar and an area discussed at length by witnesses was how Scottish food and drink products should be positioned. It was agreed that the Scottish food and drink industry has built on the successes of some key players

such as the whisky industry and those in salmon production and other areas of production. These are industries that built success through premiumisation of their product. As noted by James Withers (SF&D) -

> To an increasing extent, Scotland is selling its product on a provenance story. Scotch whisky does not have to use Scottish barley, but although that is not a requirement of its protected geographical indication status, more than 90 per cent of the barley that is used will be Scottish. The whole supply chain needs to think about that provenance story. If it is to mean something in the future, that will involve going right back to source—to the farm gate. In the future, a greater value will be attached to the raw material coming from the farm gate, and there will need to be much more collaborative supply chains. Having open-book supply chains will be critical.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, James Withers, contrib. 76[43]

122. The Cabinet Secretary was asked about the support that the Scottish Government will be giving to non-key sectors to try to help them to deliver the 2030 target that has been set. He responded by providing details of direct assistance the Scottish Government will be making in this regard–

> ...we are introducing a scheme that will encourage, help, mentor and assist those businesses to make that leap. I have discussed that in many meetings with most of the major supermarkets. That is a form of business support in our food and drink budget that will help to produce tomorrow's Barr's, Walkers and Graham's. Many of our food and drink businesses started off as family businesses some generations ago and made that step up. We want to encourage others to do that.
>
> Similarly, the Scottish pelagic sector is highly successful, but the Norwegians have dominated certain markets, such as Japan. Although it is not included in the current year's spend, there are opportunities to break into and establish a presence in major international markets in the pelagic sector.
>
> Source: Rural Economy and Connectivity Committee 20 December 2017 [Draft], Fergus Ewing, contrib. 68[44]

Access to markets

123. Another key issue raised with the Committee was the support the Scottish Government could provide to help Scottish firms' access key markets. Export markets were seen as a key priority growth area. It was noted that although whisky and salmon exports are strong, the reality is that only 7% of Scottish producers export at all.

124. Stakeholders discussed the work that SDI does in dedicating resources to support international growth and other funded activities such as 'Meet the Buyer' events and Scottish Enterprises Scotexport initiative.

125. Danny Cusick (Scottish Enterprise) discussed the important work undertaken by SDI to help support the industry in exporting –

> Only 7 per cent of Scottish companies export so, if we are to get into the upper quartile, we need to increase that figure by at least 40 per cent. Scottish Development International looks at the food and drink sector as a key sector. We mentioned earlier that we have in-market specialists, and the food and drink industry has the foundations on which it can capitalise and increase our export penetration. The scotexport initiative that we launched predominantly tries to ensure that we focus on touching as many companies as possible. Through the partnership, the foundations are in place. It will be a great challenge for the partnership if there is such a demand for the services of our in-market specialists in the EU and outside that we have to look at how we increase them, but we have the infrastructure in place to do that. The in-market specialists are predicted to increase export sales by more than £100 million over the period of the partnership programme.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Danny Cusick, contrib. 168[45]

126. The Cabinet Secretary was questioned on the Scottish Government's level of support to these activities and continued commitment to funding. In response, he noted—

> Some of the public money is used in marketing for the connect local service from Scottish Development International, which has 11 in-market specialists who work in locations around the world—from California through to Singapore and Japan—as part of the 2017 to 2020 programme. Those 11 people, whom I met recently, work with others and their efforts have helped to deliver a £50 million growth in exports. ...That is a very successful example of spending to accumulate.
>
> Source: Rural Economy and Connectivity Committee 20 December 2017 [Draft], Fergus Ewing, contrib. 25[46]

127. The Cabinet Secretary also referred to the way in which funding supported marketing activities through "meet the buyer" showcasing events and the benefits that these can bring-

> "Another example is the biennial showcasing Scotland event, which took place in Gleneagles hotel just a couple of months back and which brings together buyers from around the world and Scotland-based companies. …The benefits from the event two years ago—it is just one event in one hotel—were worth £33 million and the benefits from this year's event are estimated to be worth £50 million."

128. The Cabinet Secretary was pressed by the Committee on how the Government support to these various activities could be achieved with real term reductions in funding, citing a 25% cut in the Rural Services budget.

129. In response, George Burgess from the Scottish Government noted that—

> The element that you have picked out in rural services is only one small element of the wider food budget. The support through the food processing, marketing and co-operation scheme sits elsewhere in the budget and so there is no need for capital to be allocated here as adequate capital is available elsewhere in the budget.
>
> Source: Rural Economy and Connectivity Committee 20 December 2017 [Draft], George Burgess (Scottish Government), contrib. 57[47]

130. Stakeholders also asserted that there is also work to be done on growing the home market and improving the health of the nationand cited the importance of public

food procurement and the opportunities to increase the use of local suppliers in this regard. David Thomson (FDFS) stated –

> It is important that farmers and primary producers are supported as much as possible so that they can access public sector contracts. That might mean making sure that contracts are small enough to allow for local opportunity.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, David Thomson, contrib. 106[48]

131. James Withers (SF&D) said –

> There are other opportunities, and some innovation in how we approach public procurement might help. There may be national contracts in some parts of the public sector, such as the national health service. Might there be an opportunity to regionalise those contracts?
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, James Withers, contrib. 110[49]

132. The Cabinet Secretary affirmed the commitment of the Scottish Government in the Draft Budget to promote local produce in public sector contracts. In particular, he discussed the Food for Life Programme as a key vehicle for this and how this can deliver successful outcomes. He said–

> I visited East Ayrshire recently, and the amount of money that East Ayrshire Council spends procuring food from local farmers—like you, Mr Chapman, only in Ayrshire—is superb; it is supplying high-quality, nutritious, locally produced food to pupils. Eleven local authorities participate in the programme, and we are investing to get the other 21 to do so. Overall, the proportion of food from Scotland that the public sector procures has gone from 39 to 48 per cent over the past 10 years.
>
> Source: Rural Economy and Connectivity Committee 20 December 2017 [Draft], Fergus Ewing, contrib. 25[46]

133. Members also discussed with stakeholders issues related to access to markets and particular concerns about how market access might be affected post-Brexit. Currently 70% of agriculture exports are to the EU. A key concern in the transition to markets highlighted by witnesses is the need for the UK Government to prioritise certification and access to markets. This is key for a sector that trades in highly perishable products. There is also concern about input costs and the effect of newly imposed UK tariffs. James Withers (SF&D) argued –

> We also need to have a balance of markets. Ninety per cent of the Scotch beef that we sell is sold in the UK; with whisky, the situation is completely the reverse. We must keep internationalising our sector. That is a particular challenge with red meat, because Scotch beef is still banned in mainland China and Japan, and it is in effect still banned in the likes of the US. In the new global trading scenario post-Brexit, the UK must prioritise the issue of certification in third countries, which it has not done, historically. Having a mix of markets and premiumisation will be critical.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, James Withers, contrib. 74[38]

134. Responding to a question about the impact of Brexit on exports, James Withers (SF&D) said –

> All of the above, but trade, labour and agriculture policy are the top three. I will focus on trade and my colleagues will deal with the others. David Thomson will talk about labour, in particular.
>
> A total of 70 per cent of the food that we sell out of Scotland and which leaves the UK goes to the EU. That is the ball game at the moment, as far as exports are concerned. ...The impact on different sectors would vary. There would be no tariffs on whisky, so that sector would be fine. The concern would be around everything operating smoothly. The tariffs on salmon are important but relatively modest. ... No deal would be a disaster for food exports. We are building exports beyond Europe, but we need tariff-free access to the European market.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, James Withers, contrib. 120[50]

135. In relation to the impact on the fisheries sector, Patrick Hughes (Seafood Scotland) added –

> The main issue is securing the raw material and making sure that we get a good deal for fish that comes into Scotland. That is followed by trade and access to markets—and not only European markets, as we must also collectively and productively work for other export opportunities as well. With regard to non-tariff barriers and open access to borders, if certain live shellfish products do not get to the French market by 2 pm, for example, the price drops by 50 per cent. We need to make sure that those barriers are not in place.
>
> Source: Rural Economy and Connectivity Committee 15 November 2017, Patrick Hughes, contrib. 122[51]

136. 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.

137. 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.

138. 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.

139. 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.

140. The Committee welcomes the Scottish Government's commitment to the funded activities to help the food and drinks industry develop their export marketing

capabilities. It strongly believes that developing export capabilities are a critical element of the success of Ambition 2030. It notes in particular the strong support from the industry and Government for the work that SDI undertakes to develop these capabilities and the strong added value it brings to the sector. It welcomes the commitment for additional funding for SDI through the enterprise budget.

141. The Committee welcomes the commitment of the Scottish Government to promote local produce in public sector contracts. It notes that this could be a highly valuable market for Scottish food and drink producers. It would welcome more detail on the specific mechanisms that are proposed to bring this about and the budget support for this.

142. The Committee notes concerns raised by witnesses of the impact of Brexit on access to markets. It notes in particular the potentially significant impact on the industry of any temporary barriers to entry. It urges the Scottish Government to raise the issue of need for prioritization of issue of certification in third countries in its discussion with the UK Government and other devolved administrations.

Transport

Active Travel

143. In the Committee's Report on the Draft Budget 2017-18 it made a number of observations and recommendations on transport issues, including active travel. It called on the Scottish Government to set out how it could increase funding for active travel in order to make tangible progress towards meeting its stated targets.

144. The Committee was pleased to see that the Programme for Government 2018/19 included a commitment to "doubling investment in active travel from £40 million to £80 million a year from 2018-19". However, the draft budget includes a commitment to "double investment in sustainable and active travel to £80 million", which covers a broader range of transport modes than just walking and cycling.

145. The major increases in active and sustainable travel budgets are in the capital elements of two budget lines. The capital element of the Support for Sustainable and Active Travel budget increases from £20.4m to £65.4m (221% increase) to allow "Investment in the infrastructure which will allow the use of electric and low carbon vehicles across Scotland; delivers the actions in the Cycling Action Plan for Scotland and facilitates active travel choices; includes funding for the next phase of the Low Carbon Vehicle Procurement Scheme." The capital element of the Future Transport Fund increases from £25.25m to £60.25m (138.6% increase) and "supports projects to enable us to reduce the impact of transport on our environment."

146. The Committee sought clarity from the Minister for Transport and Islands on whether the welcome increase of investment in walking and cycling to £80m was specifically for those purposes, rather than to support wider "sustainable and active travel" objectives as stated in the draft budget. He explained that active travel

funding comes from several different sources in the draft budget and confirmed that the increased funding was for active travel, stating—

> Just to clarify, the additional £80 million will absolutely be for active travel—
>
> Source: Rural Economy and Connectivity Committee 20 December 2017 [Draft], Humza Yousaf, contrib. 162[52]

147. When questioned, the Minister made clear that this funding would not be used for other sustainable transport initiatives such as the provision of electric vehicle charging points, which would come "largely from the future transport fund".

148. The Minister indicated that the active travel funding increase will, in the main, be used for capital projects such as segregated cycle paths and footpaths, together with a continuation of existing community links schemes and other related funding mechanisms. He also advised the Committee that discussions are being undertaken with stakeholders on how the increased funding for active travel should be distributed.

149. 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.

150. The Committee also welcomes the increase in the capital element of the Future Transport Fund which it considers to be essential if there is to be a meaningful shift towards the use of more sustainable transport modes in Scotland.

151. The Committee calls 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 these areas.

Prestwick Airport

152. The 2018-19 Draft Budget will continue to support the re-positioning of Prestwick Airport. The need for continued funding to support Prestwick Airport has been a point of concern for the Committee in 2017. It noted in last year's budget report that it was "concerned that the cumulative level of loan funding, which could approach £40m by 2018, could present a potential barrier to private sector investors".

153. The Committee noted recent press speculation which suggested that there might be interest from the private sector in purchasing the airport. It sought an update on this issue from the Scottish Government, including on how the issue of cumulative losses would be managed as part of any sale agreement. In a written response, the Scottish Government stated—

> It is the Scottish Government's intention to return the airport to the private sector when the time is right, however no timescale has been set for this. Both the Scottish Government and Prestwick Airport have received and considered a number of approaches from parties expressing an interest in purchasing or investing in the airport. We welcome such expressions of interest, however given commercial sensitivities it would not be appropriate for the Scottish Government to comment on these. We have always made clear that we expect to receive a return on our investment in the airport. The optimal outcome would obviously be full repayment of the loans plus interest. [53]

154. The Committee also sought clarity on the amount contained in the draft budget for investment in Prestwick Airport in the coming year, given that the closing valuation of the airport in its annual accounts does not appear to reflect investment and support from public funds over the year.

155. In a written response, the Scottish Government indicated that the draft budget for 2018-19 allocates £7.9 million of loan funding to Glasgow Prestwick Airport

156. The Committee notes the Scottish Government's continuing commitment to develop Glasgow Prestwick Airport with a further £7.9m 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.

Rail

157. Total investment in the rail franchise, maintenance of the network and major rail projects increases from £776m to £809m (increase of 4.2%). However, there is a significant shift within this budget. Rail franchise payments fall from £310.703m to £183.374m (a reduction of 41%), while rail infrastructure payments increase from £426.543m to £587.600m (an increase of 37.8%). The reason for this change is explained as a "reclassification of Fixed Track Access Charges and profile of remaining Network Rail payments."

158. The Minister for Transport and Islands was questioned further on the reason for this change. He explained that fixed track charges can be complicated as those incurred under the rail franchise come from resource and those paid directly from Network Rail come from capital. As charges can vary year on year, this can result in variability in the resource and capital budgets. He stated—

> In order to try to remove some of that instability or inconsistency, all that we are doing is paying those fixed track access charges from capital as opposed to resource. There is therefore some consistency and less variability year on year.
>
> Source: Rural Economy and Connectivity Committee 20 December 2017 [Draft], Humza Yousaf, contrib. 168[54]

159. When questioned on whether this change in approach would have any effect on rail provision in Scotland, the Minister responded—

> The answer is no, because those fixed track access charges are still being paid to Network Rail for future rail provision, whether they are paid from resource or capital.
>
> Source: Rural Economy and Connectivity Committee 20 December 2017 [Draft], Humza Yousaf, contrib. 168[54]

160. 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 in time to provide information on whether this change delivers the anticipated benefits.

161. The Draft Budget document also highlights forthcoming changes to the way in which rail projects are financed and accounted for, stating—

> It should be noted that following the reclassification of Network Rail from a private to public sector classification, the funding regime will also change from 2019-20 and rail projects will become entirely grant-funded. HM Treasury will take on responsibility for debts accrued by Network Rail in Scotland…in the interests of maintaining comparability with previous periods, the years 2019-20 to 2022-23 contain estimates of the Network Rail investment as if it had been RAB funded. This will be revised as part of the production of the medium-term financial plan in response to the recommendations of the Budget Process Review Group. [55]

162. The Committee questioned the Minister for Transport and Islands on the potential impact these changes might have on the future financing of Scottish rail projects and the role of the Scottish Ministers in financing Network Rail operations in Scotland. The Minister said—

> ... in previous control periods, Network Rail has been funded through its borrowing capacity. That has been shifted to grant funding, so we have direct control over the release of those funds. I welcome that. Having more flexibility in that funding is helpful.
>
> Source: Rural Economy and Connectivity Committee 20 December 2017 [Draft], Humza Yousaf, contrib. 170[56]

163. The Minister also made reference to robust discussions the Scottish Government has had with the UK Government about the level of funding for control period 6, from 2019 to 2024. He said that there was disagreement on the level of funding that would be available to fund rail network maintenance and improvements in Scotland, with the Scottish Government concerned that a reduction of £600m might be made. He indicated that such a reduction could have an impact on the delivery of the pipeline of projects during the next control period.

164. The Committee notes the Scottish Government’s support for the shift in the funding mechanism of Network Rail from its borrowing capacity to grant-funding which should allow greater flexibility in how funds are accessed and released. It

also notes the Scottish Government's ongoing concerns about the level of funding which might be allocated for control period 6.

Concessionary fares and bus services

165. There is an increase of 5.8% in the budget line covering support for concessionary fares and bus services (£254.4m in 2017-18 to £269.1m in 2018-19). The Committee notes from the level 4 figures that this provides an increase in investment to support travel Smartcard projects; maintains the funding for the Bus Operators Grant; provides additional loan funding to support emissions reduction in the Scottish bus fleet; and a small increase in funding for concessionary travel schemes. The Minister advised the Committee that a consultation on concessionary travel had recently concluded and the responses were being analysed.

166. The Committee welcomes the increase in the concessionary fares and bus services budget and the Smartcard and greener buses initiatives it supports. It looks forward with interest to the outcomes from the Scottish Government's consultation on concessionary travel.

Ferries

167. While support for the provision of ferry services increases at a moderate rate (4.1% for Clyde and Hebrides services and 6.8% for Northern Isles), investment in piers and harbours grants increases from £9.37m to £12.64m (increase of 34.9%) and CMAL voted loans from £11.45m to £59.18m (increase of 416.9%).

168. The draft budget states that the increase in CMAL voted loans "provides for loans to Caledonian Maritime Assets Ltd for procurement of vessels on Clyde & Hebrides network and the NIFS network." The Committee sought further information from the Minister for Transport and Islands on the reason for this significant increase. He stated—

> ...we are in negotiations with RBS, which owns three vessels that operate on the NorthLink route. In order to spend to save over the term of the lease, we are entering negotiations to purchase those three vessels. That will save us money over the leasing period. The vast majority of the loan to Caledonian Maritime Assets Ltd is for that purpose.
>
> Source: Rural Economy and Connectivity Committee 20 December 2017 [Draft], Humza Yousaf, contrib. 186[57]

169. The Committee notes this 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.

Orkney and Shetland internal ferry services

170. Responsibility for the Orkney and Shetland Islands internal ferry services rests respectively with Orkney Islands Council and Shetland Islands Council. Funding provided by the Scottish Government to local authorities is allocated using a needs-based formula. There is no separately identifiable allocation of funding for individual services, such as ferry services.

171. The Scottish Ferries Plan (2013-2022) includes the following commitment from the Scottish Government regarding the transfer of responsibility for local authority operated lifeline ferry services to the Scottish Government –

> Our willingness to take on this responsibility, where requested, remains. As described in the Draft Ferries Plan, if we are asked to take responsibility for Local Authority ferry services, we will require an adjustment to be made to the Scottish Government's local government block grant, to ensure that we are in receipt of the revenue required to run these ferry services in the future. We may also require a transfer of capital funding to address issues with ageing vessels, ports and harbours. We are engaging with local authorities on the terms under which responsibility for ferry services might transfer and the local authorities have been provided with a set of principles that will apply should they wish to go ahead. [58]

172. The leaders of Shetland and Orkney Islands Council issued a joint statement on funding of inter-island ferries on 27 October 2017, asking for "fair funding" for inter-island ferry services – requiring an additional £11.2m capital and revenue funding each year.

173. A debate took place in the Scottish Parliament on 6 December 2017 on motion S5M-09379 calling on the Scottish Government to set out to the Parliament how it intends to honour a commitment to "the principle of fair-funding in the provision of ferries and ferry infrastructure" in relation to Orkney and Shetland internal ferry services. Following the debate, the motion, as amended, was agreed to without division.

174. Committee members questioned the Minister as to why, in light of this motion, the draft budget did not include any funding for internal ferries in Orkney and Shetland, given their understanding that the Scottish Government had made a commitment to do so. In response the Minister stated that—

> ...the cabinet secretary and I will lay out how we will meet the fair funding principle. That is a commitment to a dialogue on fair funding. That involves a number of principles, such as getting the true value and true cost of ferry services. We are absolutely committed to having such constructive dialogue, which is on-going. The leaders of the council have said that that is going well.
>
> Source: Rural Economy and Connectivity Committee 20 December 2017 [Draft], Humza Yousaf, contrib. 202[59]

175. 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 .

EU support and related services

LEADER

176. LEADER is part of the Scottish Rural Development Programme (SRDP). Its objective is to create and preserve jobs in rural communities and supports economic, social and environmental well-being through community projects. Table 12.03 of the budget shows the budget for LEADER over the past three years. There has been an increase of 127% between 2017-18 and 2018-19 –

- 2016-17 = £4.5m
- 2017-18 = £10.1m
- 2018-19 = £22.9m

177. When questioned on the significant change in the budget for LEADER this year the Scottish Government explained that spending will naturally increase around year 4 and 5 as the project has moved from planning to implementation stage. The Cabinet Secretary also noted that spending has been realigned to reflect differences in commitments and forecast spend due to uncertainty caused by Brexit.

178. The Committee welcomes what would appear to be positive progress in LEADER projects which has resulted in a move to implementation phase which requires a related boost in project funding.

The Less Favoured Area Support Scheme (LFASS)

179. The Less Favoured Area Support Scheme (LFASS) is an area based scheme provided for by European Rural Development Regulations. The objectives are to ensure continued agricultural land use in order to contribute to the maintenance of a viable rural community, maintain the countryside and promote sustainable farming systems.

180. Prior to the introduction of the draft budget, it had been expected that due to the Rural Development regulations LFASS farmers and crofters would receive a parachute payment for 2018 of 80 % of their previous LFASS payment rate. However, provisional agreement has been reached on agricultural aspects of the EU Omnibus Regulation which changes the original EU rules on LFASS. The draft budget (p144) states “In 2018-19 we will … maintain payments at 100 per cent for the Less Favoured Area Support Scheme to provide stability to farmers and crofters in rural and remote areas”

181. The Committee recognises that Scotland has distinctive needs in relation to agricultural support due to its topography and weather and the importance of financial support. It welcomes the Scottish Government's commitment to maintain payments at 100 percent for the Less Favoured Area Support Scheme.

Payments and Inspections Administration

182. The draft budget document states (p 144) that "in 2018-19 we will continue to invest in the development of new IT and improved business systems to build our capacity including preparing for the UK's withdrawal from the EU". In relation to this the Payments and Inspections Administration Costs have increased from £62.9 million in 2017-18 to £82.0 million in the draft 2018-19 budget. This is explained, in the level 4 spreadsheets, by a 16.4% increase in Rural Payments and Inspections Directorate (RPID) and Scottish Agricultural Science Agency (SASA) Staff Costs and a 78.6% increase in depreciation related to these areas.

183. The Committee asked how much of the 16.4% increase in RPID and SASA staff costs was due to a requirement to apply additional staff resources to deal with CAP IT issues. The Scottish Government stated in a written submission that expenditure funded from this budget supports the costs of over 1000 staff across Scotland in a range of service delivery roles. It noted that actual expenditure in each year is subject to fluctuation in response to; for example, staff turnover, pay inflation and delivery priorities. It currently estimated that approximately 25% of the budgetary increase of the RPID and SASA pay costs in 2018-19 relates to the design, delivery and maintenance of CAP IT.

184. The Committee takes the view that ensuring farmers and crofters receive payments to which they are entitled timeously should be treated as a priority. It is concerned that continuing problems related to the management of the Common Agricultural Payments and related IT systems by the Scottish Government will result in further expenditure on additional staff costs in 2018-19.

Rural Services

Veterinary Surveillance

185. Veterinary surveillance helps to ensure that Scotland's livestock are healthy and productive. This budget funds the collection of information on diseases and infections in animals from a variety of sources which include the diagnostic laboratory network operated by the Scottish Rural College (SRUC). Routine information is also provided by the Moredun Research Institute, the Animal Health agency and the Meat Hygiene Service.

186. The Veterinary Surveillance budget has decreased by 19.3%. The explanation of this decrease from the Scottish Government is that "SRUC and Moredun have

recently announced a strategic partnership which, when implemented, will include more efficient delivery of laboratory services by the two institutes in the future."

187. When the Committee asked whether this decrease might result in cuts to service the Cabinet Secretary said –

> We always seek greater efficiencies in how we operate, especially in these straitened times.
>
> Source: Rural Economy and Connectivity Committee 20 December 2017 [Draft], Fergus Ewing, contrib. 91[60]

188. 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.

Agriculture and Horticultural Support

189. The Agriculture and Horticultural Support budget fell from £9.5m in 2017-18 to £4.4m in the draft budget. This is due to a 60.7% reduction in "public good advice". This funding supports the Public Good Advisory Service that SRUC operates on behalf of the Scottish Government and Climate Change initiatives. More detailed level 4 budget spreadsheets report that this is because some planned schemes will no longer come to fruition. The Scottish Government states that it will offset this reduction in different ways.

190. The Cabinet Secretary informed the Committee that the Scottish Government had reflected on two of the schemes considered and reached the view that they did not represent best value for money. In a written update to the Committee the Scottish Government explained that at the time of the previous draft budget consultation on the development of the draft Climate Change Plan was ongoing. However, two of the potential measures were later deemed to have a very high cost to low mitigation potential and were thus discounted and not included in the draft Plan. This included a support scheme for controlled release fertilisers and a scheme to support the purchasing of equipment. The Scottish Government said that –

> It is an important point and worth noting that these schemes were proposed in the development stage but did not make it into the draft plan for agriculture and therefore should not be regarded as planned schemes that will not come to fruition. [53]

191. The Committee is satisfied with the reasoning behind the decrease in funding for the Public Good Advisory Service.

Forestry

192. The forestry sector (including associated wood processing, supply chains and forest related tourism) has been estimated to support around 26,000 jobs with £954m of gross value added. The sector is of particular importance to the rural economy.

Woodland creation

193. The Scottish Government has a target to plant an average of 10,000 ha per year of new woodland creation (within and without the National Forest Estate). This target has not yet been met. In last year's budget scrutiny the Committee took a particular interest in forestry. It heard that in order to reach these targets significant budget increases would be required. For example, CONFOR said –

> In order to meet the 10,000ha/year target the budget would need to be increased by £15m and, if it was to achieve the 13,000ha/year requirement identified by WEAG, the budget would need to be increased by £29m a year. [61]

194. The Committee notes that the budget for Woodland Grants has increased by £6M from 2017-18 to £46m in 2018-19. When the Committee asked whether this increased budget would be sufficient to allow planting targets to be met, the Cabinet Secretary said that the Scottish Government was moving towards achieving its target. He said–

> The increase in funding to £46 million for woodland grants includes increases in the forestry grant scheme woodland creation budget to £40 million in 2018-19. We anticipate that that will be sufficient to deliver 9,500 hectares of new planting. I believe that Forest Enterprise plans further hectarage in addition to that.
>
> Source: Rural Economy and Connectivity Committee 20 December 2017 [Draft], Fergus Ewing, contrib. 104[62]

195. The Cabinet Secretary noted that the constraint in achieving planting targets is not the availability of investment but the availability of land that is suitable for forestry and that the Scottish Government is working to resolve this and other related issues across the whole forestry sector.

196. The Committee is aware of the concerns of the forestry industry about meeting woodland creation targets and it also notes the challenges involved in doing so.

197. 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.

Programme and administration costs

198. The Committee notes that there have been a number of real term budget reductions. In relation to Programme Costs which includes a reduction in contingency funding for tree health and partnership programme funding -

- 2016-17 = £18.5m
- 2017-18 = £16.0m
- 2018-19 = £14.8m

199. Policy Regulation & Administration Costs which pay for staff relating to forest policy and corporate services are also reduced as follows -

- 2016-17 = £4.8m
- 2017-18 = £4.3m
- 2018-19 = £3.9m

200. The Committee asked whether the Scottish Government can continue to deliver all its forestry responsibilities in the face of budget reductions. The Cabinet Secretary said –

> Yes. I am confident in the ability of the workforce in the Forestry Commission to ensure that it can fulfil all its functions.

Source: Rural Economy and Connectivity Committee 20 December 2017 [Draft], Fergus Ewing, contrib. 106[63]

201. As part of its recent scrutiny of the Forestry and Land Management (Scotland) Bill the Committee became aware that its provisions will have financial implications of around £8M for rebranding and integration of IT systems which were set out in the Financial Memorandum. While acknowledging that the Bill has not yet received royal assent the Committee asked why an anticipated allowance for this amount was not set out in this year's budget.

202. In a written response, the Scottish Government confirmed that the costs arising from the Bill will be subsumed within the overall budget provision for the Forestry Commission (this includes Forest Enterprise Scotland). It highlighted that Forest Enterprise Scotland (FES), as a public corporation, secures the majority of its funding from trading activity and it is carrying forward trading reserves to fund cost of change associated with the agency.

203. The Committee is concerned that real term reductions in budgets combined with the need to meet costs for rebranding and integration of IT systems as a consequence of the Forestry and Land Management (Scotland) Bill may put increased pressure on Forestry Commission staff and may negatively impact on the delivery of forestry services.

204. 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.

Deer Management/Shooting rates

205. Part 6 of the Land Reform Act (2016) repeals the exclusion of shootings and deer forests from the Ratings Valuation Roll. Following this repeal the Scottish Assessors Association stated that sporting rates will be levied on an area basis, with different rates for different types of ground, regardless of whether any sporting or shooting activity actually takes place.

206. The Committee noted that this may have a large impact on the Forestry Commission. It asked what the Commission's rates bill will be and whether it had been factored into the budget. The Scottish Government estimated that the total liability of Forest Enterprise is £1m per annum. The Cabinet Secretary highlighted that the legislation makes reference to deer management and that the Scottish Government is in conversations with the relevant parties to secure rates relief. It drew a distinction between forestry land which is used for shooting and forestry land which isn't.

207. The Committee raised further questions about how rates will apply to deer larders. It also noted that farming businesses have been assessed for rates for shooting, whether or not they shoot on that land. It questioned why this should be different for afforested areas. The Cabinet Secretary noted this was a decision taken by the Scottish Assessors Association which is independent from Government.

208. 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.

Digital Connectivity

209. As set out in the draft budget, in 2018-19 the Scottish Government states that it will:

- deliver the final phase of the Digital Scotland Superfast Broadband (DSSB) programme, which will extend fibre broadband access to at least 95% of premises across Scotland
- launch the first phase of the R100 programme, which will deliver its commitment to extend superfast broadband access to all of Scotland by 2021

- deliver the initial stages of a programme, developed and delivered in conjunction with the four UK operators, to address gaps in 4G mobile coverage, a key element in its “World Class Digital Infrastructure Programme.

Connecting Scotland

210. The Scottish Government’s investment in digital infrastructure aims to “position Scotland, and many of its most deprived or geographically remote communities, at the forefront of the digital revolution”.

211. By the end of 2017, the Scottish Government says that it will have achieved its existing commitment to deliver fibre access to at least 95% of premises in Scotland.

212. During 2018-19, the broadband infrastructure activity will be delivered through the current DSSB programme. This will be funded through a contractual mechanism known as Gainshare (a clawback mechanism built into the DSSB contracts), where new investment has been generated as a result of additional commercial gain by BT through the roll out of the fibre network. For example, in 2015 BT brought forward almost £18 million which could be reinvested in the contract delivery.

213. The Scottish Government’s intention is that Gainshare should benefit every local authority area across Scotland, with the aim of avoiding any significant gap between DSSB and R100 deployment. The Cabinet Secretary advised the Committee that £17.9 million of Gainshare funding will be used to enable fibre access to 23,000 additional properties across Scotland in 2018, thus reducing the number of remaining properties that will require to be reached as part of the R100 programme.

214. The Committee questioned the Scottish Government on how the Gainshare funding would be distributed across Scotland. The Cabinet Secretary confirmed that this funding would be deployed in those local authority areas which currently have the lowest level of coverage. Robbie McGhee of the Scottish Government provided more detail on this would be deployed—

> In effect, the gainshare funding will be deployed through existing contractual mechanisms. The prioritisation that the cabinet secretary spoke about has been agreed with all the contributing partners, including local authorities, and it has focused BT’s modelling in particular areas. However, the funding will not go to local authorities for them to then deploy it; it is reinvested through existing contractual mechanisms.
>
> Source: Rural Economy and Connectivity Committee 20 December 2017 [Draft], Robbie McGhee (Scottish Government), contrib. 132[64]

215. The Committee was also advised by the Scottish Government that there are other trigger points in the DSSB contract mechanisms which will result in further Gainshare being released, although no figures are available as yet.

216. **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.**

217. As set out in A Nation With Ambition: The Government's Programme for Scotland 2017-18 , the Scottish Government is now committed to extending superfast broadband access across all of Scotland by 2021 – the only part of the UK to have such a commitment.

218. According to the draft budget the Scottish Government aims to deliver this commitment through the Reaching 100% (R100) programme, which will see:

> £600 million of public funding invested to help create a future-proofed, truly national fibre network – a vital first step towards achieving the commitment. [55]

219. The launch of the first phase of R100 will begin with an initial procurement exercise that was planned to formally begin in December 2017 and is expected to last approximately one year. The £600 million capital investment package announced by the Scottish Government will be made available over the four financial years - April 2018 to March 2022.

220. The Committee notes that there is no significant allocation of funding for the R100 in the draft budget 2018-19 and sought clarification from the Cabinet Secretary as to when this investment package would feature in the Scottish Government's budget. He advised the Committee that the expenditure profile will be informed by the outcome of the R100 procurement exercise and he stated—

> ...we are doing various things this year, but the R100 spend will be concentrated largely in 2019, 2020 and 2021, with the aim of completing the procurement project by the end of 2021. The vast majority of the £600 million will therefore be spread across those three financial years.
>
> Source: Rural Economy and Connectivity Committee 20 December 2017 [Draft], Fergus Ewing, contrib. 158[65]

Superfast broadband voucher scheme

221. The Committee notes that during his statement to the Parliament on 19 December 2017 on Superfast Broadband, the Cabinet Secretary announced that a voucher scheme would form part of the R100 programme to assist those individuals and communities who may not be able to access superfast broadband through fibre. The Committee sought further information from the Scottish Government on the background to this scheme and whether funding had yet been allocated to it. In a written response, the Cabinet Secretary stated—

> No budget has yet been allocated. We anticipate that our record £600 million investment through the initial R100 procurement will deliver a fantastic coverage outcome across Scotland, pushing new fibre into remote rural areas. However, we are also planning for the possibility that this may not entirely complete the job and are scoping options for future phases, including a superfast voucher scheme. We will confirm a budget for future phases once we know the outcome of the initial procurement process and are able to precisely map out what is left to be done. The commitment to reach 100% superfast access will be delivered by the end of 2021. [53]

222. The Committee also sought clarity on whether the proposed voucher scheme would simply be an extension of the current UK-wide voucher scheme, administered by the Scottish Government on behalf of the UK Government. Officials confirmed that

any such scheme would be a different, standalone scheme funded by the Scottish Government.

223. The Committee will monitor closely the development and implementation of the Scottish Government's R100 programme. It will take further evidence from the Cabinet Secretary on progress to date, project procurement etc. early in 2018.

224. The Committee will also scrutinise investment levels detailed in forthcoming draft budgets to ensure these are sufficient to ensure completion of the R100 project by the Scottish Government's stated target date of the end of 2021.

Annex A: Extract from minutes

225. 24th Meeting, 2017 (Session 5), Wednesday 13 September 2017

5. Draft Budget Scrutiny 2018-19 (in private): The Committee agreed its approach to the scrutiny of the Scottish Government's Draft Budget 2018-19.

26th Meeting, 2017 (Session 5), Wednesday 27 September 2017

5. Draft Budget Scrutiny 2018-19 (in private): The Committee agreed to seek approval for the appointment of an adviser in connection with its draft budget scrutiny and agreed a preferred candidate should approval be forthcoming.

32nd Meeting, 2017 (Session 5), Wednesday 15 November 2017

1. Draft Budget Scrutiny 2018-19: The Committee took evidence on the Scottish Government's Draft Budget 2018-19 from—

James Withers, Chief Executive, Scotland Food & Drink;

David Thomson, Chief Executive, Food and Drink Federation Scotland;

Patrick Hughes, Head of Seafood Scotland, Seafood Scotland;

Scott Landsburgh, Chief Executive, Scottish Salmon Producers' Organisation;

Andrew Richardson, Director, The Society of Independent Brewers;

Danny Cusick, Director Food and Drink, Tourism and Textiles, Scottish Enterprise;

David Oxley, Director of Business and Sector Development, Highlands and Islands Enterprise;

Dr Stuart Fancey, Director of Research and Innovation, Scottish Funding Council;

Chris Brodie, Lead Head of Sector Development, Skills Development Scotland;

Professor Peter Morgan, Institute Director, The Rowett Institute;

Professor Carl Schaschke, Head of the School of Science, Engineering and Technology, Abertay University.

37th Meeting, 2017 (Session 5), Wednesday 20 December 2017

2. Draft Budget Scrutiny 2018-19: The Committee took evidence on the Scottish Government's Draft Budget 2018-19 from—

Fergus Ewing, Cabinet Secretary for the Rural Economy and Connectivity, Humza Yousaf, Minister for Transport and the Islands, Lee Shedden, Financial Controller, Transport Scotland, George Burgess, Deputy Director, Food, Drink & Trade, Robbie McGhee, Head of Digital Connectivity Policy, and Annabel Turpie, Chief Operating Officer, Rural Payments Operation, Scottish Government.

4. Draft Budget Scrutiny 2018-19 (in private): The Committee reflected on the evidence it has heard on the Draft Budget Scrutiny 2018-19.

1st Meeting, 2018 (Session 5), Wednesday 10 January 2018

3. Draft Budget Scrutiny 2018-19 (in private): The Committee considered and agreed a draft report to the Finance and Constitution Committee on the Scottish Government's Draft Budget 2018-19.

Annex B: Written Evidence

226. Written evidence was received from the following individuals and organisations.

Aberdeenshire Council (210KB pdf)

CAMRA (252KB pdf)

Dumfries & Galloway's food and drink interface service (319KB pdf)

Emma Harper MSP (125KB pdf)

Garrocher Market Garden and Tea Garden (135KB pdf)

Highlands and Islands Enterprise (220KB pdf)

Moredun Research Institute (223KB pdf)

NFU Scotland (226KB pdf)

Nourish Scotland (152KB pdf)

Scotch Whisky Association (141KB pdf)

Scottish Retail Consortium (369KB pdf)

Scottish Rural Development (269KB pdf)

Scottish Salmon Producers Organisation (216KB pdf)

SEFARI (221KB pdf)

The Rowett Institute (150KB pdf)

Thomas Jardine and Co (218KB pdf)

Waulkmill Cider (218KB pdf)

227. The following correspondence was received -

- Letter from Skills Development Scotland to the Committee following their appearance before the Committee on 15 November regarding apprenticeships and gender balance, 1 December 2017 (171KB pdf)
- Letter from the Cabinet Secretary for the Rural Economy and Connectivity to the Committee regarding responses to follow up and additional questions from his appearance before the Committee on the 20 December 2017, 3 January 2018 (298KB pdf)

Annex C: Glossary

Aberdeen Western Peripheral route	AWPR
Scotland Food and Drink	SF&D
Highlands and Islands Enterprise	HIE
Skills Development Scotland	SDS
Scottish Funding Council	SFC
Modern Apprenticeship	MA
NFU Scotland	NFUS
The Society of Independent Brewers	SIBA
Scottish Salmon Producers' Organisation	SPPO
Food and Drink Federation Scotland	FDFS
Skills Improvement Plan	SIP
Scottish environment, food and agriculture research institutes	SEFARI
Scottish Agricultural Organisation Society	SAOS
Food Processing Marketing and Co-Operation Grants	FPMC
Scottish Rural Development Programme	SRDP
Less Favoured Area Support Scheme	LFASS
Rural Payments and Inspections Directorate	RPID
Scottish Agricultural Science Agency	SASA
Scottish Rural College	SRUC
Wood Expansion Advisory Group	WEAG
Forest Enterprise Scotland	FES
Digital Scotland Superfast Broadband	DSSB
Reaching 100% programme	R100

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