

## **Emergency Budget Review – Input from Scotland Food & Drink**

John Swinney MSP  
Deputy First Minister  
Scottish Government  
Edinburgh  
*By email*

12 October 2022

Dear Deputy First Minister,

I am writing to input to your emergency budget review and appreciate the opportunity to do so. I believe there are actions within your control that can protect our industry, but they need to be swift and far reaching.

We believe the situation is so severe that bold action is urgently needed to protect our manufacturers, processors and primary producers across the supply chain from the worst headwinds they have experienced in generations.

Specifically, we urge you to implement the five measures we have detailed in this letter to reduce and avoid costs for business to support recovery and stimulate genuine growth.

As you know, Scotland Food & Drink is the leadership body for the food and drink industry in Scotland, working in partnership with businesses, trade bodies and the public sector to responsibly grow its value and reputation. We are proud to have 430 business members across Scotland, including 300 food and drink manufacturers, all of whom contribute to our organisation and work with us to ensure Scotland continues to be internationally recognised as a land of amazing food and drink.

I know you understand how important this industry is to Scotland's economy. Food and drink businesses are the lifeblood of communities across Scotland, particularly in our most remote and rural areas. The past 15 years has been one of success, growing our value and reputation domestically and internationally. However, our journey has been halted by several major economic shocks.

Firstly, Covid-19, which shut the domestic hospitality market and our lucrative export markets overnight, with many producers reporting more than a 50% reduction in turnover. Secondly, leaving the EU compounded the effects of the global pandemic, leading to additional costs and complications and, in many cases, the entire loss of supply into key markets. Although exports in some sectors have recovered in volume, the number of SMEs exporting remains significantly lower.

Our already vulnerable businesses now face a triple whammy with a worsening cost and inflation crisis which has seen several factors combining to create a perfect storm.

Some of the most significant impacts on businesses are:

- **Ingredient costs** - increasing on average by more than 40% due to increased fertiliser and feed costs and global supply chain shortages.
- **Packaging material prices and availability** - averaging 50% price increases due to global shortages in materials and pressure in the wider supply chain.
- **Transport and logistic costs** - increasing by around 50%, with fuel costs and driver shortages significant factors.
- **Energy price rises** - whilst the six months of support has protected many, businesses still face a cliff edge in the Spring – up to a 400-500% increase from the already high levels reached earlier this year if support does not continue. For one small business, the annual energy cost will rise from £180k to £900k, and for a larger one it will rise from £2 million to £9 million.
- **Interest rate rises** – making borrowing more expensive for businesses and placing further pressure on the supply chain (e.g., credit terms changing at short notice) and the cost-of-living crisis among our communities.
- **Labour shortages** – many businesses are restricting the volume of sales simply due to staff numbers. This hampers growth.

A further compounding factor is the unique challenge for our industry when it comes to either absorbing or passing on these costs. Incredibly tight margins in the UK’s highly competitive food and drink market preclude the former, whilst the social imperative to keep consumer prices as low as possible precludes the latter.

I include a table below, using information produced for us by the Office for National Statistics, to show how the food and drink sector is disproportionately affected:

	<b>Competition</b>	<b>Cost of labour</b>	<b>Cost of materials</b>	<b>Financial costs</b>	<b>Insufficient domestic demand</b>
<b>Food and beverage industry</b>	<b>28.5%</b>	<b>25.7%</b>	<b>46.8%</b>	<b>23.0%</b>	<b>18.4%</b>
<b>All businesses</b>	<b>12.2%</b>	<b>17.3%</b>	<b>31.3%</b>	<b>14.3%</b>	<b>10.9%</b>

A particularly stark statistic from this data showed that just **2.9%** of UK food and drink businesses reported “no concerns for my business” vs **19.7%** for all businesses.

Among the concerns, inflation of goods and services was highlighted by **46.2%** of food and drink businesses vs **28.8%** of all businesses.

**24.8%** of food and drink businesses reported difficulty recruiting employees in July vs just **13%** for all businesses.

Among those reporting difficulty, **71.1%** of food and drink businesses reported gaps in semi-skilled/unskilled labour vs **47.3%** in all businesses.

Simply put, food and drink businesses are, right now, making major decisions about how and whether to continue operating. We expect that some will sadly not survive the next 12 months.

We do of course recognise the wider pressure on public sector finances and the magnitude of the challenge facing the Scottish Government in light of the wider economic situation. But I fear that without your direct and significant intervention food prices will need to rise further, job losses and business closures are likely, and our ability to safeguard our production and ensure our food security will be in jeopardy.

We have set out below five policy and financial interventions which we believe are achievable and would remove costs, support recovery, and stimulate growth:

- I. **Non-domestic rates relief:** we recognise this is a significant financial undertaking, but it will make a huge difference to businesses across the industry. During Covid, several other sectors benefited from rates relief, but this was not extended to food and drink producers. This intervention would provide breathing room for producers and aid their cashflow.
- II. **Pause all proposed regulation:** we welcome your previous commitment to explore this and urge you to pause all new or proposed regulation, unless critical to public health. Business owners are focused on survival so please allow them to channel their energy in this way and, crucially, avoid new costs at this time. DRS and HFSS are two examples of regulation which will add costs to businesses, and where there is clear opportunity to pause and reflect on the best way forward.
- III. **Accelerate and incentivise investment in renewable technologies and automation:** currently, investing in solar panels leads to an increase in the rateable value of a property, which is a perverse disincentive. Please review this and other similar policies to aid a quicker transition.
- IV. **Capital Investment and Loans:** for those businesses best placed to grow, government can help by expanding and bolstering all existing funding programmes. Opportunities such as FPMC, LCMF, and the Marine Fund have the potential to be game-changing for the industry – but are not without their challenges. If government can enhance the volume and range of funding, increase the intervention rates, and broaden the scope to include more businesses, we can kick-start our recovery. We know businesses want to grow and some are willing to take on loans – so let's explore whether Scotland's National Investment bank can help more food and drink businesses invest in the automotive, renewable and digital technologies that will secure Scotland's place as a global trading nation, selling sustainable, high-quality food and drink products across the world.

- V. **Resilience Fund:** whilst we recognise the pressures on public sector finances there is merit in establishing an emergency resilience fund, to support the most extreme cases of hardship where the business has a viable future. This would be similar to the Pivotal Enterprise Resilience Fund which supported eligible businesses during COVID.

The Scottish Government has been and continues to be a great supporter of the food and drink industry. Your continued financial contribution, much of which is channelled through Scotland Food & Drink, makes a genuine difference right along the food and drink supply chain and will support the industry's refreshed strategy with a renewed push towards responsible growth. If we can combine this with the interventions detailed above, we believe we can emerge stronger from this crisis.

We are facing one of our biggest challenges to date but by working together we can secure the future of our thriving industry as part of a healthy, green, and prosperous Scotland.

I look forward to hearing from you.

**John Davidson**

Interim Chief Executive