

Greater Lincolnshire AgriFood Sector Plan refresh

July 2017

This refresh of the sector plan is presented as an addendum to the original sector plan which was adopted by Greater Lincolnshire LEP in spring 2014. The update should be read in conjunction with the original plan, which it does not replace.

Rather, this update refreshes the focus of the original plan and tries to prepare Greater Lincolnshire to respond to the changes which have happened in the last 3 years and looks forward to actions which need to be taken in the next 3-4 years as major changes impact on the food chain.

The original sector plan is available at:

<https://www.greaterlincolnshirelep.co.uk/priorities-and-plans/sectors/agri-food-sector/>

Greater Lincolnshire AgriFood Sector Plan refresh

Introduction

This paper updates the Greater Lincolnshire AgriFood Sector Plan for the changes in the context for the industry since spring 2014 and will be used to focus actions taken by the LEP and its partners over the period 2017-2020.

Many of the changes in the context of the food sector, such as the continued focus by customers and consumers on price, sustainability and new product development, have continued, are long standing and thus were anticipated in 2014. They require constant adaptation from the industry but have not changed fundamentally since 2014 and thus whilst action is still needed, this is essentially a continuation of the work started in 2014.

However, in some cases the changes seen since 2014 were not anticipated e.g. the larger rise in wage costs by 2020 because of the announcement of the National Living Wage in July 2015 and the Brexit vote in June 2016, both of which will have substantial but as yet unclear impacts.

The refresh of the plan therefore addresses both the need to continue to address the longer term trends as well as need to develop new actions to respond to the more recent and less anticipated challenges which have seen since 2014.

The original AgriFood Sector Plan included six main areas for action:

- Developing an industry led Food Board which will strengthen industry representation, develop more detailed data on the industry and engage larger employers in the industry;
- Build on the existing clusters of companies in the GLLEP food chain and ensure that these clusters have the industrial space and support to facilitate growth;
- Developing a sector skills plan through the Lincolnshire and Rutland Employment and Skills Board and aligning skills investment with a programme to secure additional applied research projects for GLLEP agri-food companies;
- Developing and implementing a 25 year plan for water supply to support agri-food production and linking this to a GLLEP Centre of Excellence in Water Management;
- Building an economic case for investment in the strategic transport infrastructure to support agri-food sector growth, with a particular focus on road freight;
- Promoting exports and inward investment in the agri-food sector by building on the area's ports and World class food sector.

Changes in the Context for the AgriFood Sector Plan

Since 2014, work on all the areas in the original plan has progressed and, whilst it would be hard to argue that any of these areas has been delivered in full, inevitably more progress has been made in some areas. It is therefore important to review these areas and update and/or add to them to ensure that the plan for 2017-2020 continues to reflect industry needs.

Key issues which have impacted on the themes in the sector plan since 2014 are:

Sector leadership - Greater Lincolnshire has set up the GLLEP Food Board and hosted two Big Food Debates with MPs to promote the industry. Grimsby hosted 9th World Seafood Congress in 2015 and representation for the sea fish industry North and South of the Humber has been united in Seafood Grimsby and Humber. In South Lincolnshire the Logistics Forum has expanded its remit to include the food sector and now meets regularly.

Cluster and industrial facilities - Greater Lincolnshire was successful in applying for three Food Enterprise Zones (FEZ) out of 17 nationally: Europarc 4 (Grimsby); Hemswell Cliff; Holbeach. Work is progressing on developing Local development Orders (LDOs), with the Hemswell LDO approved in June 2017. Food business support programmes are also being developed to support food chain companies.

Skills and R&D - Bishop Burton's new campus at the Lincolnshire Showground has opened. University of Lincoln has brought together all its agriculture and food work in the Lincoln Institute for AgriFood Technology (LIAT), the UK's largest centre for food chain automation and robotics. Grimsby Institute opened the Modal logistics Training Centre in January 2017.

25 Year Water Plan - The LEP has developed and launched a 25 Year Water Management Plan and is also working actively with Anglian Water through Water Resources East (WRE) to secure long term water supplies for the agrifood sector alongside other water users.

Transport infrastructure - Greater Lincolnshire has secured investment via Growth Deals for strategic road improvements, but is acutely aware more is needed and has welcomed the recent announcement of additional investment in roads by the government. Key projects to improve junctions and in South Lincolnshire are particularly important for food sector growth and will be promoted by the LEP.

Trade – the UK has seen continued growth in food exports and following government changes, this is now supported by the Great British Food Unit in the new Department for International Trade (DIT). 40% of Greater Lincolnshire's exports are food and livestock related and the County and Unitary Councils are working with DIT on exports and inward investment.

More broadly since 2014 the sector has seen the following changes:

1. **Continued growth** - spending on food in the UK and internationally has increased, with in the UK spend increasing from £187billion in 2012 to £203billion in 2016 (+8.5%). Employment in the agri-food sector has also been growing and rose 2.3% in 2015-'16 to 3.83m¹. The largest increase from 2012-'16 was in food manufacturing, up by 28,000 employees (+7.5%).

2. **Brexit** – whilst it is still too early to speculate in detail on the shape of the UK's future relationship with the EU post Brexit, it is clear that whatever deal is finally agreed it will have impacts in three major areas: agricultural support (via the replacement of the CAP); labour supply; trade with the remaining EU states.

This is likely to mean that farmers are more focused on making profits from the supply chain (potentially putting upward pressure on farmgate prices), a need to increase labour efficiency to cope with any potential restriction on labour supply and a need to explore new overseas markets outside the EU to compensate for any potential fall in exports to the EU.

Nationally data suggests that there are at least 140,000 migrants working in the farming and the food chain and a further 70-80,00 harvest workers, or nearly 25% of the workforce. However, locally in Greater Lincolnshire larger companies in food processing and logistics typically report the figure to be 40-60%, suggesting any future restrictions on migration could provide a major strategic challenge on labour supply for the industry.

3. **National Living Wage (NLW)** – announced in July 2015 and introduced from April 2016, the NLW will increase wages across the economy at rates above inflation for all those earning less than £9hour and, arguably, for staff above this given the desire of higher paid staff to maintain a differential. Unpublished work (Martin Collison) has estimated that across the food chain from farm to fork, in a sector with nearly 4million staff many of whom have been relatively low paid, (particularly food retail and catering), the NLW could increase the wage bill by £10billion per annum in 2020.

With labour availability constrained, rapid falls in robotic costs and increased functionality of automated systems, allied to a low cost borrowing environment, this is speculated to lead to a wave of automation along the food chain, with consequential impacts on the numbers and type of staff required.

4. **Apprenticeships** – the Government has announced an Apprenticeship Levy for employers with a payroll of over £3million, set at 0.5% from April 2017. This levy can be used by the employer to support apprentices, or if the company chooses

¹ DEFRA (2017), Agriculture in the UK 2016

not to offer apprentices is recycled in the education system. It is also proposed, once the initial system beds in, to allow larger employers to support apprentices employed in their supply chains. Given the number of larger employers in the GLLEP food chain, the sector will be subject to a large levy and thus encouraged to support more apprentices.

The changes to apprenticeships will also potentially lead to national employers appointing a single national supplier and with NCFM, the largest national provider of food processing apprenticeships, Lincolnshire is well positioned to exploit this change.

5. **Government** - a new single party Government was elected in May 2015 with a focus on a progressive, outward facing Industrial Strategy. Arguably the focus on an Industrial Strategy was reinforced by the Brexit vote and a perceived need in government to focus on global competitiveness. Whilst the Industrial Strategy Green Paper² in January 2017 did not specifically focus on the agrifood sector, the parallel Technology and Industry Futures 2017³ report (launched on the same day) included numerous references to technologies used in the food chain (from genetics to automation) and a whole page dedicated to the food chain.

In June 2017 the General Election resulted in no overall majority for any party, but the conservatives remained the largest party and have agreed a confidence and supply arrangement with the DUP to ensure that they can pass major bills and a budget. This has, however, created additional uncertainty about future policy and notably the type of Brexit deal which will be negotiated. However, the summer 2017 Queen's Speech committed to a UK Agriculture Bill by 2018/19.

6. **Midlands Engine / Sector Deals** - the Industrial Strategy Green Paper in spring 2017 identified both a desire to rebalance the economy away from the SE, as well as indicating a desire in government to reach spatial (e.g. Midlands Engine) and **Sector Deals** to drive investment in industries with growth potential.

The scale, complexity and dispersed nature of the food chain makes it challenging to develop a Sector Deal (compared to for example the deals which have already been agreed for automotive or aerospace), but with government committed to these deals failure to act will make it harder to secure government investment in the food chain.

The food industry in Lincolnshire is also keen to link with East Anglia given the strong business connections there and the routes south to the UK's largest food markets centred on the SE and London.

² HMG (2017), Building our Industrial Strategy, Green Paper

³ Government Office for Science (2017), Technology and Innovation Futures 2017

A Greater Lincolnshire Response

The changes seen since 2014 give rise to a long list of potential areas in which the LEP could seek to work with partners to support the food sector. However, prioritising a few (4-5) key areas is believed to be the right approach, as this is likely to result in more progress being made, through greater focus and an increased ability to attract investment.

Whilst there remains a great deal of uncertainty, for example on the final shape a post Brexit deal with Europe, a number of themes will be important regardless of these challenges. These core issues which we must deliver on regardless of how the future relationship with Europe unfolds are believed to be:

- **Production efficiency** - labour productivity and automation, resource efficiency, transport and other aspects of productivity will be critically important. Greater Lincolnshire can be rightly proud of its food chain efficiency, but if we failed to continue to lead in this area we will inevitably lose market share to those who invest in productivity improvements.
- **Focus on meeting consumer needs** – by recognising that consumer food demands and markets will continue to change rapidly in the UK and across the World, leading to both the decline in demand for some products and the growth of other markets. Lincolnshire must ensure it produces for tomorrow's market opportunities and embraces the global market for food;
- **Supply chain focus** – so that we work along the supply chain to deliver efficient and effective solutions which meet customer and consumer needs for high quality, traceable and cost effective food products.

A cross cutting issue is that we must focus on interventions and investment which have a transformative effect. The public sector can be afraid to 'pick winners' and often only invests for the short term. In this sector it is important that we invest in a few areas well rather than many half-heartedly and that we do so for the long term.

Greater Lincolnshire within the National Food Economy

GLLEP with the University of Lincoln has been leading work across the Midlands Engine area (Welsh border to Lincolnshire) on a 'Future Food Processing' theme and this is gaining some support in government.

In addition, the Industrial Strategy Green Paper, signals a desire in government to support further Sector Deals, but to succeed with one of these in the agrifood sector, there would be a need to work at the pan-regional or national level. Whilst this is inevitably challenging, the automotive and aerospace sectors (both smaller than the food chain) have previously secured Sector Deals worth in excess of £1 billion to

support investment in their sectors and supply chains. Given that Greater Lincolnshire has the largest concentration of food processing and food chain logistics in the country, it is potentially in a good position to help lead a pan-regional or national Sector Deal for the food sector.

Lincolnshire is also leading work on the food strand in the Industrial Digitalisation Review (IDR), which was established by government to progress a key technology area for future growth across the economy as part of the Industrial Strategy.

The LEP is aware that operating pan-regionally or nationally, increases complexity and can lead to delays in action. It is therefore proposed that any action taken at the regional and national level should not distract from delivering quick wins at the more local level where needs, resources and the ability to deliver projects can be aligned.

More broadly Greater Lincolnshire should take every opportunity to promote the potential of the food chain in Lincolnshire and nationally to grow to meet growth in the UK and international markets.

Recommendation 1: Greater Lincolnshire should pursue an active programme of investment to support the growth of the food sector within Lincolnshire, but where synergies with other LEP areas or national programmes can be found, should seek to play a leading role in programmes over a wider area.

Labour Productivity & Skills

The NLW, potential future constraints on labour supply and the falling cost of technology will both require and enable the sector to improve its labour productivity rapidly by 2020. The development of LIAT at the University of Lincoln and the growth it has seen in projects focused on food chain automation has positioned the University and Lincolnshire at the forefront of this development in the UK.

The Greater Lincolnshire food sector should seek to capitalise on this industry demand and local capacity to address this need by supporting:

- Continued growth in the NCFM and LIAT teams focused on automation, robotics, data and sensors in the food chain, to create more efficient production processes and to support food companies in adopting these systems. This will be delivered through applied research projects jointly delivered by the University, technology suppliers and food industry end users to commercialise new processes.
- In parallel, FE Colleges, the University and industry should work together to develop the new skills needed to adopt new technology across the food chain. To do this, both existing and new staff will need enhanced skills. Support to progress from FE to HE should be prioritised as skills levels rise and action must be taken to make the sector more attractive to potential employees.

To deliver this programme the food sector and LEP will work with education and innovation centres in Lincolnshire to:

- Position Lincolnshire to lead on the food chain labour productivity challenge nationally, by supporting the development of a UK Centre for Food Automation through linking to other centres in the Midlands and nationally. Lincolnshire should take the lead on this development by building on the existing NCFM and the Holbeach FEZ development proposals. A major capital and revenue support programme to develop enhanced capacity to meet this industry challenge should be sought from government.
- Develop an integrated end to end skills supply programme, based on a Sector Skills Deal model, to meet the future skills needs of the food chain including linked sectors such as food chain logistics. This should include aligning investment by industry and the public sector in FE, HE and knowledge exchange.
- Proactively lead the development and delivery of apprenticeships for agriculture and the food chain.

The LEP is also working with DEFRA alongside Greater Cambridge, Greater Peterborough LEP (GCGP) to support work DEFRA is undertaking on delivering a SME productivity pilot programme for the food sector.

The LEP should lobby government to ensure that companies are supported with tax breaks and/or grants to improve their labour productivity to meet the labour supply and skills challenges facing the industry by 2020. Continued access to migrants is, however, required for at least 5-10 years whilst the industry invests in more productive systems and probably indefinitely for seasonal jobs such as harvesting.

Additional investment in Innovate UK and skills provision or productivity improvements such as the challenges on energy and water supply will all help to secure a more prosperous future for the industry.

Investment in season extension to help the UK meet more of its own supply needs is particularly important in the fresh produce sector focused on South Lincolnshire.

Recommendation 2: the Greater Lincolnshire AgriFood sector should work with education providers to develop a programme of integrated skills and innovation support to facilitate the development of more productive AgriFood systems, through a national centre for food chain automation based in Lincolnshire.

Recommendation 3: the GLLEP should work with government to ensure that the food industry is supported to invest in the skills and automation needed to meet future challenges on labour supply and to create more productive, higher skilled, higher paid jobs to reduce the longer term need for migrants staff.

Market Focus & Trade

Consumer food demands continue to evolve rapidly with steady overall UK market growth masking much faster changes in the demand for particular products. Whilst UK consumer expenditure on food is increasing by 2-3% per annum, it is currently rising by circa 6% per annum globally as both an increase in population and rising wealth leads to demand for more food, more processed food and higher quality.

The UK food chain has a reputation for having the highest levels of traceability and amongst the most robust quality systems globally, which makes UK sourced food particularly attractive at the premium end of the export market.

With food and livestock already representing 40% of Greater Lincolnshire's exports and continued growth in UK food exports, the LEP should work with the food industry to redouble its efforts to promote export growth.

Following the Brexit vote, the government has focused more attention on exports with the creation of the Department for International Trade (DIT), with in the food sector this building on the establishment of the Great British Food Unit and through alignment with the '*Great*' campaign.

The UK has been successful in growing its food exports since 2004, with exports exceeding £20billion for the first time in 2016. However, UK imports have also continued to rise to £42billion in 2016 and as well as driving export growth the industry should therefore seek to substitute imports.

The National Living Wage may also change the way in which the supply chain functions, because the impact of labour cost rises will be most acute in food service (estimated to cost this sector £4billion per annum by 2020), but this sector is also primarily delivered by many small business units and is thus hard to automate. This is speculated to lead to increased demand in food service for centralised preparation of food, a market which Lincolnshire would be well placed to exploit.

Recommendation 4: Greater Lincolnshire should develop its programme to support food companies that wish to increase their exports and develop new markets, by working closely with DIT and the Great British Food Unit. Particular attention should be focused on increasing exports to growth markets outside the EU.

Physical Infrastructure

With a sector that continues to grow the provision of physical infrastructure, e.g. premises and transport, remains a key issue. Greater Lincolnshire is lucky to have three Food Enterprise Zones in development and, whilst the focus of each will be different, collectively they provide a real opportunity to promote the area's food sector, attract new investment into the area and support the growth of existing local

companies. Greater Lincolnshire secured £6.5million to support the infrastructure needs of the FEZs in the March 2017 budget and this is currently being allocated across the three FEZs via a challenge fund to ensure that these sites are deliverable.

The LEP will, with local partners from both the public and private sector, promote these FEZs to the food industry in the UK and overseas. Furthermore, the FEZs being geographically spread from North to South of the LEP area provide the opportunity for localised provision of business and innovation support.

Transport connectivity is closely linked to supply chain efficiency and with major roads in the West and North of the area and the UK's largest port on the Humber, this ensures that parts of the GLLEP food sector well connected to national and international markets. However, further South and East in the LEP area, the road infrastructure has significant capacity issues and with, in excess of 1million food related vehicle movements per annum in South Lincolnshire and 35% of all food transport in the UK transiting the area at some point in the food chain, improvements to the road infrastructure remains a priority.

Recommendation 5: Greater Lincolnshire should focus on developing clusters of food companies both within and linked to the three FEZs in the GLLEP area and use these FEZs both to attract further inward investment into the food sector and as hubs for business support services for the food chain.

Recommendation 6: Greater Lincolnshire should work with partners to promote the need for continued investment in transport infrastructure to support growth of the food chain with a focus both on UK connectivity via the strategic road network and international markets via the Humber and other ports.

Key Priority Actions

Based on this analysis, Greater Lincolnshire should focus future investment in the AgriFood sector over the period 2017-2020 on six recommendations:

- **Recommendation 1:** Greater Lincolnshire should pursue an active programme of investment to support the growth of the food sector within Lincolnshire, but where synergies with other LEP areas or nationally can be found should seek to play a leading role in programmes over a wider area.
- **Recommendation 2:** the Greater Lincolnshire AgriFood sector should work with education providers to develop a programme of integrated skills and innovation support to facilitate the development of more productive AgriFood systems, through a national centre for food chain automation based in Lincolnshire.
- **Recommendation 3:** the GLLEP should work with government to ensure that the food industry is supported to invest in the skills and automation needed to meet future challenges on labour supply and to create more productive, higher skilled, higher paid jobs to reduce the longer term need for migrant staff.
- **Recommendation 4:** Greater Lincolnshire should develop its programme to support food companies that wish to increase their exports, by working closely with DIT and the Great British Food Unit. Particular attention should be focused on increasing exports to growth markets outside the EU.
- **Recommendation 5:** Greater Lincolnshire should focus on developing clusters of food companies both within and linked to the three FEZs in the GLLEP area and use these FEZs both to attract further inward investment into the food sector and as hubs for business support services for the food chain.
- **Recommendation 6:** Greater Lincolnshire should work with partners to promote the need for continued investment in transport infrastructure to support growth of the food chain with a focus both on UK connectivity via the strategic road network and international markets via the Humber and other ports.