

**QUALITY MEAT SCOTLAND**  
**CORPORATE & BUSINESS PLAN**

**2015/16 – 2017/18**

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## Chairman's Foreword

I am pleased to present Quality Meat Scotland's three year Corporate and Business Plan prepared in line with the requirements for a public body.

A copy of this Corporate Plan, which sets out Quality Meat Scotland's strategic ambitions on behalf of the Scottish red meat industry for the period 2015/16 to 2017/18, is published on the QMS website [www.qmscotland.co.uk](http://www.qmscotland.co.uk)

The board members of QMS are appointed by Scottish Ministers for their knowledge of the different sectors of the Scottish red meat industry as well as experience in areas including marketing, finance and corporate governance. The board members are listed on page 32.

The board has set strategic priorities for the organisation to assist businesses operating in the Scottish red meat industry to become more efficient, sustainable and profitable. These priorities have been identified giving full consideration to the Scottish red meat industry's operating environment and the challenges and opportunities which exist.

QMS Chief Executive, 'Uel Morton, is responsible for ensuring the organisation's day-to-day activities are delivered in line with our overall strategy *to shape a sustainable and prospering Scottish red meat industry*. This strategy is aligned with the Scottish Government's economic strategy of *increasing sustainable economic growth*.

Specific strategies with clear objectives and supporting activities are in place. QMS works closely with the industry and liaises regularly with representatives of the different sectors to ensure our activities meet the differing needs of beef, lamb and pork businesses.

QMS is operating against a backdrop of reduced levy income which is a major challenge. Due to the distribution of levy income on the basis of the geographical location of abattoirs, Scotland is now annually missing out on around £1.6 million of levy income which is collected outwith Scotland as a result of Scottish livestock being slaughtered in England or Wales. QMS could be reinvesting this lost income in activities to underpin the future of our industry and discussions to tackle this disparity are on-going.

Following a review in 2013, our Industry Development work is now more sharply focused on knowledge transfer activities to improve the efficiency and sustainability of those working in our industry. During 2014 a range of excellent work was undertaken by our Industry Development team, which now supports more than 200 events throughout Scotland each year.

The focus of these activities is very much on "farmer-to-farmer" communication of ideas and opportunities to improve profitability and reduce waste. One example of the industry development team's activities is the establishment of a network of Grazing Groups around the country, aimed at assisting farmers to increase the kilos of meat they produce per hectare of land grazed.

The red meat industry contributes around £2 billion\* to Scotland's economy and despite concerns about challenges, such as the impact of CAP reform, there are very positive signals for the future of the Scottish red meat industry.

There is no question that global appetite for high quality red meat is set to increase considerably in the decades ahead and the long-term outlook for our industry looks very encouraging. In the shorter-term we look forward to making the most of the opportunities to promote the brands during 2015, Scotland's Year of Food and Drink.

Our industry can move forward with confidence that we have a top quality product and a compelling message in terms of what sets our brands apart. This includes the world-leading quality assurance behind the Scotch Beef PGI, Scotch Lamb PGI and Specially Selected Pork labels, the priority given to animal health and welfare and our natural, grass-based cattle and sheep production systems.

To ensure we are well-placed to take advantage of the opportunities ahead it is important that those working in our industry, which supports around 15,000 businesses and 50,000 jobs, look to the future with confidence and continue to benefit from the latest innovations and opportunities to improve efficiency.

Our board has set strategies to ensure QMS continues to deliver a very substantial, relevant and vibrant programme of activities to support the sustainable growth of Scotland's red meat industry.

I am confident these strategies will lay the foundations for a comprehensive, measurable range of activities to be carried out by QMS staff.

**Jim McLaren**  
**Chairman**

- Source: Quality Meat Scotland's "Red Meat Industry Profile 2014"

# **1 Context**

## **1.1 Structure**

QMS is established, under the Quality Meat Scotland Order 2008, as a Non Departmental Public Body (NDPB). Its constitution is set out in Schedule 2 of the Order.

## **1.2 Remit**

The powers and functions of QMS as set out in the Order are as follows:

The purpose of QMS is to increase efficiency or productivity in the red meat sector, improve marketing in the red meat sector, improve or develop services that the red meat sector provides or could provide to the community and improve the ways in which the red meat sector contributes to sustainable development.

QMS has responsibility for a range of statutory functions relating to the development and promotion of the Scottish red meat industry, as set out in Schedule 1 of the Order.

QMS' activities on behalf of levy payers are funded through income derived from statutory levy and collected by QMS. The quality assurance schemes are self-funding from fees.

## **1.3 Board and corporate governance**

All Board members are non-executive and appointed by Scottish Ministers for a term not exceeding four years. The appointments are made in line with the Code of Practice issued by the Public Appointments Centre for Expertise.

The Board has corporate responsibility for ensuring that QMS achieves the Scottish Ministers' overall aim of using the statutory levy for the benefit of Scottish levy payers. The Board oversees the efficient and effective use of staff and other resources by QMS in accordance with the principles of best value.

A robust system of financial monitoring and performance review is in place. Apart from regular meetings of the Board, this includes an independent Audit Committee consisting of three Board members and the appointment of independent internal auditors. As a public body the external audit function comes under the scrutiny of Audit Scotland. A risk register is regularly reviewed by the Board and policies are in place governing the use of reserves and the application of public procurement rules. QMS has a Management Statement and Financial Memorandum which sets out the relationship between QMS and the Scottish Government.

QMS recognises the importance of good governance standards in the public sector and bases its approach on six principles as follows:

- focussing on the organisation's purpose and on outcomes for levy payers specifically and others generally;
- performing effectively in clearly defined functions and roles;
- providing effective corporate governance for the whole organisation and ensuring principles of value for money are embedded into procedures;
- taking informed transparent decisions and managing risk;
- developing the capacity and capability of the governing body to be effective;
- engaging with levy payers and other stakeholders to ensure good accountability.

#### **1.4 Industry engagement**

A network of engagement is in place to help the organisation take account of the views of levy payers, and so that levy payers are aware of the activities that are being delivered on their behalf. This includes:

- attendance at meetings of the NFU Scotland Livestock and Pig Committees and by invitation to NFUS regional and branch meetings ;
- attendance by invitation at meetings of the Executive of the Scottish Association of Meat Wholesalers;
- attendance by invitation to meetings with the President and Chief Executive of the Scottish Federation of Meat Traders Associations;
- levy payer involvement in the review of assurance standards by participating in standard setting committees which advise the Board;
- regular meetings of the QMS Scottish Cattle Industry Group
- regular meetings of the QMS Scottish Sheep Industry Group
- regular meetings of the QMS Pig Industry Group Scotland
- specific Marketing Strategy Group meetings for beef, lamb and pork which receive input from producer and processor representatives;
- facilitation of an Independent Retailers Marketing Strategy Group
- periodic attendance (at least once annually) at meetings of other livestock industry representative organisations;
- participation at national industry events;
- various weekly or monthly press columns;
- publication and distribution of an Annual Review which sets out the breadth and depth of QMS activities to over 10,000 industry stakeholders
- a weekly e-newsletter to over 4000 industry contacts
- a quarterly business improvement magazine (Livestock+) distributed to over 9,000 farming businesses
- active development of social media with over 7,500 followers on FaceBook and Twitter.

#### **1.5 Time window**

This Plan considers a three year time window for the financial years 2015/16-2017/18.

## **2 Review of the Industry Operating Environment**

In shaping this Corporate Plan consideration has been given to a wide range of factors in the industry operating environment. These factors can be considered in the following categories: political, environmental, economic, sociological and technical.

### **2.1 Political factors**

Although the Scottish referendum of 2014 concluded the debate on independence, uncertainty remains over the further extension of Scottish devolved powers. The conclusions and recommendations of the Smith Commission will inevitably impact on the strategic decision making of the Scottish red meat industry over the life of this plan.

A legacy of the 2014 independence debate is a desire for wider civic involvement and participation in government. The Scottish Rural Parliament, which convened for the first time in November 2014, is an example of this wider involvement. QMS will continue to actively engage with stakeholders and respond to their requests for information.

Uncertainty remains over the current constitutional debate over the UK and Scotland's position in Europe, with the potential of an "in – out" referendum if the Conservatives win the UK general election in 2015. This continuing constitutional debate over the UK's relationship with the European Union and the Eurozone will be a key influence on the business climate in which the Scottish red meat industry operates in the future.

Food and drink remains a core plank of the Scottish Government's economic and public health strategy. During 2014 they published a discussion document<sup>1</sup> building on the original policy from 2009 and reaffirming the Scottish Government's commitment to "promoting the sustainable economic growth of the food and drink industry". This discussion paper recognises the issues and challenges of food security, diet, supply chains, productivity and the need for market diversity. Addressing these challenges will remain at the heart of what QMS does.

The Scottish red meat sector makes a continuing and significant contribution to the targets and ambitions articulated for the Scottish food and drink sector by Scotland Food and Drink in 2013. Nevertheless, the red meat sector's ability to meet these targets is compromised by a number of challenges not least of which is the steady decline in livestock numbers since the last reform of the CAP implemented in 2005. Furthermore, with Scottish livestock prices some of the highest in the world, Scottish price competitiveness is compromised at a time of growing global meat demand.

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<sup>1</sup> Recipe for Success: Scotland's National Food and Drink Policy Becoming a Good Food Nation - Scottish Government 2014

Livestock producers are not immune from the wider economic challenges (see section 2.3) and QMS' Enterprise profitability studies<sup>2</sup> and the Scottish results from the European Commission's Farm Accounts Data Network<sup>3</sup> show that without support payments from the Common Agricultural Policy (CAP) most cattle and sheep enterprises would struggle to be profitable.

Much work has been done during 2014 to structure the revised CAP to best advantage for Scottish agriculture, including securing increased funds for voluntary coupled payments for Scottish beef farmers and for extensive hill sheep farmers in the most disadvantaged regions of Scotland. Nevertheless, livestock farmers are formulating their 2015 and 2016 business plans with a degree of uncertainty over the practical details of the CAP they will be working with. There remains uncertainty, for example, over the degree of redistribution of support from highly productive livestock producing areas to less productive areas. This may lead to changes in business profitability levels and increase the risk of a reducing livestock population and changing enterprise mixes on farms. It is important to, at a minimum, maintain livestock numbers and desirable to increase them in Scotland in order to:

- sustain the viability of Scottish abattoirs,
- maintain the visibility of Scotch product at point of retail,
- maximise the listing of Scotch branded product on retail shelves, and
- secure employment in rural communities and throughout the supply chain.

The publication, during 2014, of the industry's vision for the future of the beef industry<sup>4</sup> sets some challenging recommendations. QMS will continue to work with industry and policy makers to assist the red meat industry to respond to these challenges and help to shape the future of livestock production in Scotland.

Other elements within the CAP associated with greening, such as the proposed definition of permanent grassland and capping of payments also have potential to impact adversely on the scale and structure of the Scottish livestock industry.

Running in parallel with the implementation rules for CAP direct payments is the establishment of the next generation Scottish Rural Development Programme (SRDP). While a significant part of the SRDP budget is committed to LFASS it is important that the SRDP continues to offer funding to encourage quality livestock production and innovation. Over the life of this corporate plan the European Commission intends to review the operation of LFASS, converting it into an Area of Natural Constraint (ANC) scheme and involving a review of land eligibility criteria. It is important that the red meat sector is fully engaged in this review in order to highlight the threats and opportunities that a review of land eligibility criteria may bring.

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<sup>2</sup> Cattle and sheep enterprise profitability 2014 edition - QMS (2014)

<sup>3</sup> Economic Report on Scottish Agriculture 2014 - An official statistics publication for Scotland (2014)

<sup>4</sup> Beef 2020 report; A vision for the beef industry in Scotland – Scottish Government 2014

It is important that the red meat industry is involved in discussions to secure the maximum level of funding for initiatives to encourage quality livestock production and innovation through knowledge transfer and quality schemes. Similarly securing SRDP funding is key for several Beef 2020 recommendations including the desire to improve knowledge exchange and access to practical farm data on animal genetics and animal performance.

The SRDP also has potential to support investment in the processing sector in respect of capital investment and new product development through the Food Processing, Marketing and Co-Operation (FPMC) scheme.

Nevertheless, State Aid rules will continue to impact on QMS' ability to respond to some of the challenges and opportunities created by the SRDP.

The EU continues to revise and expand the regulatory controls that impact on livestock farming and red meat processing. Examples include the impending or recently introduced EU regulations on; product labelling with respect to meat used as an ingredient, country of origin labelling for fresh pork, sheepmeat and poultry, amending BSE and TSE control measures, managing the welfare of animals at time of slaughter and the introduction of Electronic Identification (EID) to the bovine sector, some of which create an added cost for the industry. It is important that the industry and Government work together to minimise the burden of these compliance costs while gathering the maximum benefit.

QMS will continue to monitor developments in this regard and, in cooperation with Scottish Government, disseminate guidance and develop activities to protect and enhance the brand as required.

The Scottish Government's publication of its second report on proposals and policies in respect of achieving Low Carbon Scotland targets<sup>5</sup> continues to set challenging targets for greenhouse gas (GHG) emissions from Scottish agriculture. The European Commission is also increasing its interest in managing climate change at a European level, requiring the SRDP to incorporate climate change measures within its agri-environmental measures and publishing, in 2013, a green paper setting out a vision for a "2030 framework for climate and energy policies." In October 2014 the European Union heads of state and government agreed to this green paper and set new targets to cut European greenhouse gas emissions by 40% from 1990 levels by 2030.

Publication of the Scottish Greenhouse Gas Emissions 2012 report show emissions from agriculture and related land use to have fallen 26.7% since 1990. A revision to the way the estimates are made introduced in 2012 has reduced the size of reduction for agriculture slightly from previous estimates. Nevertheless, the latest estimates imply that agriculture has already met the targets set for it by the Scottish Climate Change Delivery Plan published in 2009.

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<sup>5</sup> Low Carbon Scotland Meeting the emissions reduction targets 2013-2027 second report on proposals and policies <http://www.scotland.gov.uk/Resource/0042/00426134.pdf>

However, emissions are heavily influenced by stock numbers, productivity and between year climate variations and will be volatile over time within the livestock sector.

The two major contributory gases from the red meat supply chain are methane, much of it associated with rumen fermentation, and nitrous oxide, much of it associated with volatilisation of ammonia from organic and inorganic fertilisers. Emissions associated with meat processing and distribution play a minor role in the carbon footprint of the red meat supply chain. Despite achievements demonstrated in the Scottish Greenhouse Gas Emissions 2012 report, pressures remain on the livestock sector to address these emissions. Pressures will be less on the processing sector but nevertheless issues over gas refrigerants, energy use in plants and transport efficiencies are likely to emerge.

However, the climate change debate is widening into a wider sustainability debate involving other resource use and business practices including water, the handling of waste and employment practices.

The wider debate on the integrated management of land, water and living resources that promote conservation and sustainable use in an equitable way is at the heart of the definition of ecosystems services.

Researching the role of ecosystems services is a central theme of the Scottish Government's 2011-2016 research portfolio and will increasingly inform the shaping of policy on, for example, Land Use Strategy. Indeed the Scottish Land Use Strategy will be revisited over the life of this corporate plan and it is important that the relationship between agricultural land use and other land uses, like energy, recreation and forestry, is fully articulated and recognised in the strategy.

Other policy initiatives linked with climate change objectives have potential to impact on the livestock sector. Investment aid for renewable energies has led to some diversion of investment capital away from livestock production on some farms. The objectives set for afforestation and the prioritising of land suitable for afforestation away from highly productive arable land and carbon rich soils will lead to significant land use conflicts on land well suited to grassland production and livestock rearing and present a challenge to the cattle and sheep sectors in the medium term.

Addressing these challenges focuses attention on efficient resource use, which in most cases relates to production efficiencies, which are likely to improve margins. In some cases further research is needed to advance the science and understanding in these areas, for example rumen fermentation. In other situations increased activity in respect of knowledge transfer and knowledge exchange is required.

Consumer awareness of the climate change and sustainability debate is increasing. However, currently there remains no single agreed methodology for establishing a measure of carbon footprint and for this reason and the time consuming nature of the exercise, initial attempts to introduce carbon reduction labelling have been abandoned by many early adopters.

Issues to be resolved include:

- establishing the boundary of business, enterprise or supply chain to be measured;
- taking account of sequestration, particularly the use of permanent pastures but also on-farm forestry;
- how best to recognise the emissions attributable to purchased products; and
- how best to recognise differences in management and husbandry techniques referred to as tier 1, tier 2 or tier 3 analysis.

Nevertheless, many retailers are increasingly seeking to work with suppliers to reduce their impact on the environment<sup>6</sup> and incorporate sustainability credentials in their company and product promotion<sup>7</sup>. This global agenda will grow in relevance for the Scottish red meat industry. Indeed, the world's largest beef processor (JBS) has responded to these pressures by addressing sustainable beef production in Brazil<sup>8</sup> illustrating the challenge the Scottish industry faces.

Work is currently underway to improve the understanding of carbon sequestration and carbon storage in permanent pastures, peat moorlands and mountain grazings.

It is important that the ruminant livestock sector is fully engaged in this debate over carbon management and carbon storage in well managed permanent grassland, peat moorland and mountain grazings, ecosystems management and business and environmental sustainability. QMS influences the debate by providing evidence and analysis of the Scottish context.

The Scottish Government continues to support an agenda of healthy eating. Within its discussion document "Becoming a good food nation" the Government lays out an agenda for food in the public sector, a children's food policy, local food and good food choices. It has also launched a "Supporting Healthy Choices" framework to encourage healthier diets and will launch an "Eat Better Feel Better" campaign in 2015. 2015 will also be the Year of Food and Drink Scotland. QMS continues to work closely with Government, its agencies, Scotland Food and Drink and other sectorial bodies to ensure the priorities of the red meat sector are to the fore in these initiatives and others.

Pressures on public funding are, however, likely to affect the extent to which these agencies are able to offer financial support to industry led initiatives to sustain a prospering Scottish red meat industry.

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<sup>6</sup> See for example "Tesco <http://realfood.tesco.com/our-food/tesco-farming.html>, Marks and Spencer Plan A report 2014, Sainsbury's 20x20 Sustainability plan [http://www.j-sainsbury.co.uk/media/1790641/20x20\\_brochure\\_2013.pdf](http://www.j-sainsbury.co.uk/media/1790641/20x20_brochure_2013.pdf)

<sup>7</sup> See for example: McDonalds Restaurants [http://www.aboutmcdonalds.com/mcd/sustainability/signature\\_programs/beef-sustainability.html](http://www.aboutmcdonalds.com/mcd/sustainability/signature_programs/beef-sustainability.html)

<sup>8</sup> [http://www.jbsglobal.com/media\\_center/press\\_releases/jbs-joins-sustainable-cattle-breeding-program-amazon](http://www.jbsglobal.com/media_center/press_releases/jbs-joins-sustainable-cattle-breeding-program-amazon)

QMS is fully aware that it will become increasingly necessary to foster collaboration with other parties, for example Scotland Food and Drink and sectorial bodies promoting complementary products in target export markets, to achieve best value from limited resources.

The Scottish Government proposes to introduce a new food body for Scotland during 2015 and QMS will seek to co-operate with this body in achieving common aims in respect of education on the importance of a balanced diet and effective and proportionate regulation of food business operators.

In a global context, the continuing discussions over world trade and the desire to reduce or remove artificial market access barriers have the potential to impact on the Scottish industry's competitiveness. The World Trade Organisation appears to have accepted that a comprehensive agreement in the Doha Round is not possible and is now seeking incremental gains. One such topic area is the role of Tariff Rate Quotas (TRQs) in agricultural trade.

Elsewhere the European Commission continues to hold bilateral talks with a number of nations or groups of nations, most notably Japan, The United States and Mercosur. While these negotiations may open up opportunities for red meat exports they similarly may result in greater imports of beef from the US and Brazil. A recent analysis of this potential trade<sup>9</sup> identified a particular threat to suckler beef in Europe from US trade and for this reason, among others, there is a desire by the European Commission to maintain beef as a sensitive product within these negotiations and to limit the degree of trade barrier relaxation for sensitive products.

Continuing efforts by the UK government to dismantle import restrictions in 3<sup>rd</sup> countries is a welcome step forward that could open up new market outlets for Scotch Beef, Scotch Lamb and Specially Selected Pork in for example, China, Japan and Canada. Estimates by the OECD-FAO<sup>10</sup> concluded that "world meat consumption continues to grow at one of the highest rates among agricultural commodities" but that 82% of this growth will occur in developing countries in, for example, Asia and Africa. It is important that the Scottish red meat industry through cooperation with the Scottish and UK Governments is in a position to benefit from these opportunities and those created by other nations and trading blocs agreeing changes in trading and market access regulations.

The fact that due to legislative requirements levy is collected at the point of slaughter means that livestock born, reared and finished in one part of the UK and slaughtered in another is a loss of levy to the country (England, Scotland, Wales and Northern Ireland) where the main economic activity has taken place. QMS will continue to explore ways of repatriating levy and/or gaining more input into the way that Scottish producer levy collected outside Scotland is used to the best advantage of Scottish levy payers.

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<sup>9</sup> See page 55 of

[http://www.europarl.europa.eu/RegData/etudes/STUD/2014/514007/AGRI\\_IPOL\\_STU\(2014\)514007\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2014/514007/AGRI_IPOL_STU(2014)514007_EN.pdf)

<sup>10</sup> OECD-FAO Agricultural Outlook 2012-2021

The work of the Smith Commission on further devolution of powers to the Scottish Parliament has created an opportunity to accelerate discussions on the legal framework for levy collection and distribution.

## **2.2 Environmental factors**

There are a number of factors that are increasingly impacting on the industry's operating environment. Some are likely to result in political action, either at national, EU or global level.

Significant among these issues is the lack of profitability within the processing and farming sector which limits the ability of this sector to invest in capital projects to enhance the efficiency of plant operation and manage product quality. Underlying this low plant profitability is the continuing decline in livestock availability and the competitiveness of the retail market which makes it difficult to pass forward the increased costs.

The cost of living is increasingly being highlighted in political debate and is likely to become a major issue in the upcoming UK general election. Although by late 2014 labour market data indicated that wages have begun to outpace inflation, real wages have fallen by an average of 5% over the past six years.

A recent report from the Institute of Fiscal Studies<sup>11</sup> concluded that between 2008 and 2012 consumers reduced the amount of calories they bought and substituted to cheaper food. However, food prices declined relative to 2013 levels throughout the third quarter of 2014 and are therefore likely to play less of a role in the debate.

The contamination of processed beef products with horsemeat revealed in early 2013 has increased UK consumer interest in the provenance of the food they eat. This continues to offer opportunities for Scotch PGI produce but also increases the competitive position of other quality assured product identity brands on the UK and export markets, particularly in the light of falling livestock numbers and higher regional prices.

Although the priority of issues of consumer interest vary from year to year the red meat businesses' operating environment continues to be influenced by debates over, for example, food provenance; environmental sustainability and climate change; the carbon footprint of food production; food miles; the general environmental impact of food production and food waste; diet and human health, a continuing debate about GM foods, water use; food prices and achieving a basic level of food security. These are global concerns and their priority can vary from country to country. Nevertheless, they impact on the way in which Scottish livestock products are perceived in different parts of the world.

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<sup>11</sup> Food expenditure and nutritional quality over the Great Recession. IFS Briefing Note BN143 ESRC 2013

The role that GM technologies<sup>12</sup> can play in meeting the global demand for food and fuel has been highlighted but political and consumer uncertainty over risk continues to be an issue. European Commission decisions over the use of GM crops have potential to impact significantly on costs of livestock production in the future.

The Scottish Government maintains its opposition to the cultivation of GM crops and urges that any proposals for importing GM materials for their use in food and feed be considered only after the most rigorous analysis, adopting a precautionary approach. However, some multiple retailers have recently relaxed their attitude to the use of GM feed in intensive livestock production.

Despite agriculture being one of the few industry sectors to meet its 2012<sup>13</sup> target from the Climate Change Delivery Plan, the industry will increasingly be called on to address the challenge of reducing these emissions. Many mitigation measures have positive impacts on enterprise profitability and as the debate matures and knowledge increases, market opportunities are likely to develop. Nevertheless, the challenge for the industry remains one of sustainable intensification leading to increased stock numbers to meet the growing global demand for meat while minimising environmental and climate impact.

Extensive livestock production systems based on permanent pasture, organic and low inorganic fertiliser use and minimal tillage may provide low carbon-equivalent production systems. Extensive livestock production may also attract interest as a land management option that provides "Ecological Services" which may attract a public good payment through CAP.

Some 75% of Scotland's agricultural area is recorded as grassland over five years old or as rough grazing and the use of this resource is at the heart of Scottish ruminant livestock production. It is important that the role of grazed permanent pasture in greenhouse gas management through carbon sequestration, carbon storage in soil and landscape biodiversity creation and maintenance is fully understood and presented.

Not all of Scotland's red meat is derived from extensive farming regions. Pig production and some cattle and sheep finishing enterprises are more intensive in nature. Their high levels of technical efficiency mean that they can be very carbon efficient per kilogramme of meat produced but produce a lot of emissions per business or per unit of land area and are looked on critically by some in the sustainable farming systems debate. It is important that the Scottish red meat industry is engaged in the developing debate on sustainable intensification and that the strengths of these more intensive businesses are communicated more widely.

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<sup>12</sup> See for example foresight report "The future of food and farming: challenges and choices for global sustainability (2011) the Government Office for Social Science, London

<sup>13</sup> See Scottish Greenhouse Gas Emissions 2012: An Official Statistics Publication for Scotland (June 2014)

In recent years intensive livestock producers have faced competition from the renewable energy industry for arable crop and arable crop by-product that can be used for energy generation. Currently, this pressure has diminished as global oil prices have fallen below \$85 per barrel making biofuel production less attractive. The adoption of fracking within the United States as a means of recovering oil and gas has further eased the pressure on arable product prices.

Insofar as these global issues have a relevance to Scottish farming systems, livestock production is viewed by some outside the industry as having a detrimental impact on the environment through over stocking, water pollution and, in a global context, de-forestation and desertification. Scottish livestock producers and processors are already in the process of adopting new or modified production methods that address these concerns.

The Scottish livestock industry has a high reputation for the health status of its stock and it is important that this high health status is maintained through high levels of bio-security and disease free accreditation. Bio-security, with regard to both indigenous and exotic disease, and the risk of some exotic diseases becoming endemic in the UK can impact on trade movements within and outside of Scotland. Breakdowns in health status elsewhere in the UK invariably impact on the Scottish meat and livestock trade. For example, the TB free status of Scotland continues to have implications for cross border demand for breeding, feeding and slaughter livestock that may lead to reduced supplies of cattle eligible for the Scotch Beef label.

### **2.3 Economic factors**

Although 2014 has seen some respite in agricultural input cost inflation, and indeed animal feed and energy prices are lower than twelve months ago, farmgate prices for cattle sheep and pigs have also fallen. As a consequence, livestock producers continue to operate on minimal, and in many cases negative, margins without the support of CAP payments and breeding livestock numbers remain under pressure. The exception has been the pig sector where the significant decline in feed costs has offset the fall in farm gate prices and breeding sow numbers increased in the June 2014 Scottish census.

The decline in slaughter stock numbers means that processors have to carry fixed costs over a lower output which, combined with resistance from customers to higher wholesale prices, means that they too continue to operate on minimal margins, limiting their ability to make capital investments in plant and equipment.

Latest published annual reports and accounts from the processing sector clearly show the narrow margins faced by processors in the current economic climate with earnings before interest, tax, depreciation and amortisation for many of these businesses in Scotland being less than 2%. The need to secure growth in the number of breeding and Scotch eligible livestock in Scotland remains as businesses running on thin margins require sufficient volumes and price competitiveness to sustain production.

Scottish pig processing capacity is now less than half of its level prior to the closure of the slaughtering facilities at Broxburn in the autumn of 2012. However, the majority of the remaining plants are committed to the Specially Selected Pork brand. The recent announcement of investment in additional capacity at the Brechin pig abattoir will increase the proportion of the Scottish pig output that can be slaughtered in Scotland over time. As a consequence, it will raise the volume of product potentially able to carry the Specially Selected Pork label. The sector will though once again become vulnerable to the risks associated with a significant dependence on one large slaughtering facility; although it will be mitigated by the new ownership structure of this large facility.

While considerable quantities of lamb are currently slaughtered outside of Scotland, existing plants are not working to capacity but equally, given their customer base and business mix, are unlikely to significantly add to their throughputs. Despite the closure of a Welsh lamb plant in spring 2013 which handled a significant quantity of Scottish lamb, Scottish abattoirs have yet to see any material benefit. To increase lamb slaughtering in Scotland will need considerable inward investment to either maximise existing capacity or secure new companies entering the Scottish marketplace and building new facilities.

Scottish cattle abattoirs have sufficient capacity to handle current levels of Scottish production and indeed could handle more stock if it was available. To secure the future of Scottish cattle slaughtering requires support and encouragement from agricultural policy measures to secure profitable farm enterprises and thus secure current, and hopefully increased, volumes of livestock production in Scotland.

Recent volatility in milk prices and the end to dairy quotas in the EU could have conflicting influences on beef supplies in Europe. The recent decline in milk prices will, by making dairy production less profitable, force the least efficient producers out of the industry, reducing the supply of beef from the dairy herd. However, relaxing quotas may encourage the most efficient producers to expand not only in the UK (although the UK has not produced to quota for several years) but also across Europe. In the short-term, as a by-product of increased dairy production; and in the longer-term, if dairy producers react to declining profitability from milk by adopting beef genetics to make their animals grade better in the abattoir dairy beef production could increase. At the EU level, if there is an increased supply of beef from the dairy herd, then a likely effect may be to place downwards pressure on the value of manufacturing grade beef.

The influence of economic management policies, in response to a weak global economy, on bank interest rates, the availability of finance and exchange rates has potential to impact on investment decisions of both the producer and the processor, particularly with respect to their impact on international trade.

Changes to Bank of England and ECB policy in 2012 have helped to ease the flow of credit to firms and households and, when combined with improving business and consumer confidence, this has generated a positive feedback loop.

However, the failure to fully recover from the financial turmoil of 2008 and 2009 means that interest rates are still low and, even when they do begin to increase, they will rise more slowly than in the past and are likely to remain much lower than the historical average for many years to come.

Although the UK economy has grown strongly through 2013 and the first half of 2014, European economies have fared less well and export demand has stalled leading to the likelihood that the Bank of England will put off any base rate increase until late 2015. Despite the low cost of capital benefitting existing borrowers, access to capital continues to prove a challenge for small and medium-sized firms that would like to innovate. Revised rules on bank liquidity and increased bank risk aversion remain a constraint on capital availability, particularly for smaller sized firms.

In the current business environment, the red meat supply chain, which mainly consists of small and medium-sized enterprises run on thin margins, is therefore likely to have been constrained in its attempts to invest in product development. This situation is likely to continue.

One of the most significant impacts of the 2008-9 financial crisis and policy responses has been a seemingly permanent weakening of the pound sterling from the 67-68p to a euro seen in late 2007. This should have boosted the export potential of the UK economy by raising the price competitiveness of UK exports. However, the UK continues to run a large trade deficit and only modest progress has been made on this front. This is likely to be linked to weak European demand and the previously noted difficulties of accessing capital to make the required investments for an expansion in export capacity. The lack of rebalancing helps explain why the UK economic recovery had been weak until domestic consumption began to pick up in 2013.

Moving away from the long-term rebalancing of sterling, and focussing on the red meat sector, short-term volatility related to developments in monetary policy and economic prospects will have had a considerable impact on the competitiveness of Scottish exporters. Since 2010 the value of sterling against the euro has gone through five significant changes. Over the past two and a half years, the exchange rate has gone from €1=£0.78 to £0.85 and back again. The first of these movements followed the commitment of the European Central Bank (ECB) to hold the currency union together in the third quarter of 2012. This has since reversed as the UK economic recovery has taken hold and the prospect of the Bank of England raising its base interest rate has drawn nearer. Meanwhile, in response to falling inflation, the ECB has loosened monetary policy, even reducing its deposit rate below zero. Unfortunately for red meat exporters, the increased value of sterling has reduced profitability of the export trade, forcing them to lower their sterling price or accept a loss in market share through higher euro prices; or some combination of both. For farmers, the exchange rate in late September determines the sterling value of CAP support. Currency movements, and their intrinsic uncertainty, can, therefore have a significant impact on the financial prospects of Scotland's red meat industry

Moving back to the domestic economy, the UK economy has grown strongly over the past twelve months. UK retail sales were 3.3% higher than twelve months before during the August to October period. This has happened despite wages rising more slowly than inflation until very recently. Indeed during Q3 2014, CPI inflation averaged 1.4% while total pay grew 1% and regular pay 1.3%.

The UK unemployment rate has been declining rapidly, falling to 6% in Q3 2014 from 7.6% a year earlier. The security offered by permanent employment has boosted consumer confidence and this has fed through to an increased willingness to spend. In September alone regular pay picked up 1.8% on the year exceeding the 1.2% rate of CPI inflation leading to real wage growth and hopefully a sustained rise in consumer spending.

In contrast to overall retail sales growing strongly throughout 2014, purchases in predominantly food stores have been very subdued. During August to October 2014, whereas sales in non-food stores grew by 6% year-on-year, sales in food stores were 0.4% higher. Falling prices appear to have given sales in non-food stores a boost, but have not led to higher spending on food.

Looking at red meat, data from Kantar Worldpanel for the 12 week period ending October 12, 2014 presents a mixed picture for beef, lamb and pork. For beef, after some promising signs in July and August, consumption appears to have dipped back with volume purchases down marginally over the twelve weeks. Consumers spent 2.3% more on beef than 12 months earlier but bought a lower quantity of beef as retail beef prices increased 2.7%. For lamb, price inflation was slower, at 1%, but this did not stimulate consumption as spending was down 0.5% and volume sales were 1.5% lower. By contrast, pork consumption picked up. A sharp 5.5% decline in the average retail price pushed volumes purchased up by 2.5%.

Over the past year, though, beef sales fell more than 2% in volume terms despite a near 4% rise in spending on beef; meanwhile, sales of lamb fell 2% in value and 7% in volume. In contrast, lower prices have boosted pork sales volumes over the past 52 weeks as a 2% lower spend secured a 1% increase in the volume of pork sales.

Meanwhile on the Continent, there are mounting worries that Eurozone economies have relapsed towards recession. Indeed after four quarters of slow growth, the Euro-economy flat-lined in Q2 2014. The two largest economies of France and Germany appear to have slowed markedly; the latter in part due to increased difficulty in trading with Russia. In addition, inflation rates have fallen to an extremely low level, making high debt burdens more difficult to deal with and increasing the risk of a deflationary spiral taking hold. In an attempt to deal with this, the ECB has cut interest rates and offered banks access to cheap funding. However, opposition from Germany is limiting the ability of the ECB to loosen monetary policy further through asset purchases. On a more positive note, two of the economies hit hardest in the aftermath of the 2008/2009 recession, Spain and Ireland, have shown signs of rising economic activity.

Further afield, growth rates in emerging economies have eased. Economic sanctions have hit the Russian economy hard while Brazil has had a tough year. In addition, output has slowed considerably in China. By contrast, the US economy has been growing strongly in 2014. In the third quarter, US GDP grew at an annualised pace of 3.5%, following a 4.6% expansion in the second quarter. With unemployment also declining, the Federal reserve has placed its asset purchases on hold. As a consequence, the US dollar has firmed since the summer, slowing the sterling terms declines to prices of imported commodities, such as oil and soya.

## **2.4 Sociological factors**

Livestock production is dominated by small family businesses with a profile of an aging workforce/business proprietor. Consequently, the sector faces the dual challenge of renewing the skilled workforce and giving new entrants the opportunity to enter the sector. In the meantime an aging workforce/business proprietor is often characterised by being risk averse in respect of business expansion or adoption of new technologies.

The processing sector similarly recognises as an on-going challenge the recruiting of a skilled workforce and consequently continues to have a high dependency on migrant Eastern European labour. High street butchers similarly face the challenge of attracting suitable skilled staff to their businesses. The development of skills training initiatives have potential to benefit the meat processing and specialist retail sectors and QMS continues to work with Skills Development Scotland and other agencies/public bodies to identify ways to increase access to vocational training in and recruitment into the production, processing and specialist retail sectors.

In respect of the consumer market for red meat a number of sociological and demographic factors influence the market place. A continuing trend towards an older population, smaller households, limited budgets and prepared foods with reduced cooking times have created challenges in portion size and delivery. Similarly, some segments of the market have a growing interest in the way food is produced and prepared. Due to persistent economic uncertainties – job security, purchasing power, pensions – shoppers' priorities continue to focus on value for money. Consumers are looking for "Consistent good value for money". Evolving consumer trends can stimulate greater differentiation in the marketplace and create opportunities for high quality Scottish produce to attract a sustainable consumer base.

Consumers continue to be driven by value for money which is a different concept from cheapest when applied to red meat, but this is leading to greater differentiation in the market between quality drivers and price drivers. Both are seen as elements of value for money by the consumer resulting in polarisation of demand with growth in premium product ranges at one end and low cost everyday range at the other. This is also reflected in the change in market shares, and growth, between main stream multiple retailers, the discount retailers and those retailers with a reputation for high quality but more limited ranges.

A number of selling points, or product differentiation points, are emerging. The fallout of the horsemeat incident has resulted in more media and consumer interest in product provenance (knowing where ingredients come from) and product assurance. This manifests itself in falling consumer trust in, among other things, product labelling. Some of this will be addressed by impending European legislation. However, in general current research shows the Scottish consumer is more trusting than those in England, Wales and Ireland. Nevertheless, those in England and Wales are more trusting of Scotch Beef and Scotch Lamb than they are of many other labels because of the quality and tradition associated with Scotch product.

There is also continuing consumer interest in locally produced items both in terms of proximity to the consumer but also at a national level where an increasing number of UK consumers say they would prefer to buy British produce or indeed local food. This development creates both threats and opportunities for the Scotch red meat sector where some three-quarters of Scottish abattoir production is sold to customers outside Scotland.

Among those consumers seeking higher quality an increasing number are defining quality in terms of taste with an expectation that Scotch will deliver.

Although household budgets continue to be squeezed, shoppers have adapted to the economic downturn and seem to have adopted new ways of shopping. Retailers who used to be seen as hard discounters have become accepted retailers with similar demographics to other retailers. The arrival of these new retailers is taking market share from the more traditional multiple retailers. There is also a steady growth of online red meat sales which may reach 10% of the market in the next few years.

Out-of-home eating remains under pressure for the same reasons as retail shopping has changed. As with retail shoppers, out of home eating is also reflecting the polarisation between quality dining and lower cost convenience dining with the middle ground being squeezed.

The interest in preparing meals from first principles in the home is often drawn from retailer promotions like "£10 dinner for 2" and food related TV shows continues with a consequential impact on the foodservice sector. Meat is seen as part of a meal and less as its central part.

While emphasising the diversity of retail outlets for red meat the changes in consumer buying patterns for meat have highlighted the importance of value for money cuts and offals in maximising financial returns. Value for money, brand loyalty and ethical values such as animal welfare, support for local economy, fair trade and reliable consistent eating quality remain key drivers in the shoppers' decision making process.

Consumers remain health conscious and media coverage of health stories is enhancing this awareness, although the current economic climate has reduced the extent to which health concerns are playing a part in purchase decisions.

Encouraging an improved diet remains a core element of Scotland's food policy and it is important for the industry to be working, with government and others, to educate and reassure consumers about the nutritional benefits of red meat in a balanced diet.

Although consumer awareness of, or interest in, greenhouse gases, climate change and world population growth has diminished over the period of economic downturn, these issues are being used to promote a campaign for limiting meat consumption in developed western economies and to promote vegetarianism. It is important that the industry continues to promote the eating of red meat as part of a healthy and balanced diet and defends the industry's position in respect of climate and water sustainability arguments.

However, it is widely recognised that a growing world population and improved economic prospects will create significant global demand for red meat<sup>14 15</sup> and opportunities for the Scottish red meat industry. To maximise the potential of these opportunities the Scottish industry must rebuild herds and flocks, the decline of which is putting severe pressure on the sustainability of the Scottish processing sector, in order to be in a position to exploit these opportunities.

## 2.5 Technical factors

The development and adoption of new technology in animal breeding and husbandry, grassland management, automation of abattoir processes and information and communication technology provides a means of increasing the efficiency of the red meat supply chain.

The challenge for the industry is the rate of uptake of proven techniques that improve business efficiency to the benefit of financial returns and greenhouse gas emissions. For example, whole farm nutrient management, GPS and soil mapping have potential to improve the efficiency of fertiliser use leading to additional benefits to both water quality and carbon emissions. DNA technology can not only be used to prove animal provenance but also offers scope to support decisions on selecting breeding animals best suited to production systems and market requirements over carcass quality. Work under way to build an integrated Scottish livestock database offers potential to improve feedback of information throughout the supply chain provided these additional benefits are recognised in the design process. QMS will continue to work towards demonstrating the benefits from such feedback and encouraging the adoption of production enhancing technologies and information streams.

Scotland's livestock industry has a high reputation for the health status of its livestock and stock have proved increasingly attractive to producers in England and Wales which highlights the importance of animal health and welfare and bio-security in contributing to the sustainability of the Scottish red meat industry.

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<sup>14</sup> "Foresight – the future of food and farming: Challenges and choices for global sustainability" Government Office of Science London 2011

<sup>15</sup> Meat OECD-FAO Agricultural Outlook 2014-2023 <http://www.oecd.org/site/oecd-faoagriculturaloutlook/meat.htm> accessed 28 November 2014

Advances in technology are leading to improvements in animal health in particular and animal management in general. Nevertheless, over recent years increased prevalence of endemic and exotic disease demonstrates that there is a continuing need for early stage diagnostics, reliable and robust treatments and knowledge exchange of the presence of, risk associated with and management of these diseases.

The emergence of exotic diseases, growth in the incidence of endemic diseases and supported measures to control for example BVD emphasise the importance of the need for an accurate and easily accessible livestock movement database to aid animal management. Developments in electronic identification already in place, or proposed, offer significant scope to improve the speed and accuracy of livestock traceability.

Initiatives to develop a single database for cattle, sheep and pigs within Scotland currently underway offer the prospect of significant gains in the efficiency of delivering information on animal traceability for producers, processors and government.

The continued drive to renewable energy sources and developments in second generation bio-fuels derived from food industry by-products may lead to added value for currently low value or zero value waste products from the meat processing sector. However, similar developments in other food and drink sectors, for example the increased use by distillers of their by-products for energy generation, has led to significant changes in the availability, and cost, of by-products for animal feed in some parts of the country.

The use of anaerobic digesters as a means of renewable power generation is an element of both the Government's climate change and renewable energy targets. Opportunities may arise for greater co-operation between producers or between producers and processors to minimise waste and reduce energy costs through the use of anaerobic digesters.

Managing and reducing food waste, both the food itself and the packaging associated with it, remains an evolving issue. Currently significant quantities of food waste go to landfill and contribute to global methane emissions. The Scottish Government launched its "zero waste plan" in 2010 followed by The Waste (Scotland) Act 2012 which details requirements for food businesses (restaurants, cafes and retail outlets) to separate food waste for separate collection by either 2014 or 2016, depending upon size of the enterprise, and a ban of food waste, collected separately, from landfill sites by the end of 2013. Separate collection of domestic food waste has been piloted in some parts of Scotland and is likely to be rolled out further in the medium term. These measures will increase the use of food waste in renewable energy and composting with consequences for the economy, the environment and the suitability of such composts as a fertiliser on grazing land.

Continued developments in robotics and the use of Video Imaging Analysis (VIA) to evaluate carcase yield, offer the potential for improved efficiencies on processing lines. Information and communication technology including VIA and the developing Scottish livestock traceability system provide an opportunity to capture and return a wider range of information on carcase quality and animal health to primary producers to better inform production decisions.

Advances in Bio and GM technologies are leading to innovations in animal and plant science. Sometimes referred to as biopharming, where foreign genes are incorporated into a plant by means of genetic modification to produce antibodies, vaccines or industrial products. This technology may lead to increased competition for land to produce animal feed, human food, energy crops or “pharm” crops. Other GM technologies may lead to improved efficiencies in production of animal feed crops, for example soya and maize, to the benefit of the livestock sector.

Advances in the science of manipulation of rumen fermentation may lead to benefits for the livestock industry through improved rumen efficiency and reduced greenhouse gas emissions.

Technical advancement in the Scottish livestock sector requires continued commitment to Research and Development both on farm and in Research Institutes and Universities. Scotland is fortunate to have several world-leading Research Institutes and Universities working in the area of animal science and the Scottish Government’s annual commitment to R&D in animal science is over £8.9m.

Technical advancement also requires research knowledge to be transferred, shared and adopted by as wide an audience as possible. The challenge of achieving wide spread adoption of scientific research is one readily accepted by QMS who will continue to work towards this objective through the use of monitor farms, knowledge exchange and other collaborative initiatives. These actions will also seek to encourage and facilitate peer-led innovation and change by increasing involvement and participation in activities that will lead to sustainable economic growth.

### **3     Strategic Focus**

#### **3.1   Overall strategy**

To shape a sustainable and prospering Scottish red meat industry

#### **3.2   Specific strategies**

QMS will achieve the overall strategy by:

1. Creating confidence which promotes industry investment in its future
2. Increasing the uptake of evidence-based innovation and proven solutions to improve industry efficiencies
3. Promoting economic, environmental and social sustainability
4. Working with the industry to develop and build markets
5. Assisting the industry to inform consumers and satisfy customer expectations
6. Developing partnerships and where relevant leveraging additional resources

**Footnote** – We define the red meat industry as those parts which are involved in the Scottish assurance chain - animal feed suppliers; cattle, sheep and pig producers; livestock markets; hauliers and primary processors.

#### **3.3   Critical Success Factors**

Critical success factors for the organisation are:

1. Enhanced awareness of, demand for and value of the Scotch Beef, Scotch Lamb and Specially Selected Pork brands
2. Deliver industry benefits from QMS initiatives
3. Retain public and governments support for red meat production and consumption
4. Maximise multiplier effect of statutory levy
5. Retain industry and stakeholder confidence in QMS
6. Satisfy Scottish Government requirements in operating as a Non-Departmental Public Body

These are the key areas where “things must go right” for the organisation to flourish. If the outcomes in these areas are less than adequate, the organisation’s efforts for the period will be less than desired.

### **3.4 Measurement of Progress in Achieving Strategies**

As set out in 3.1 and 3.2, the organisation has an overall strategy and six specific strategies developed and agreed by the Board of QMS. Underpinning these strategies are objectives for the separate departments at QMS through which the work of the organisation is delivered.

These objectives are further supported by a list of activities and performance measures which are specified in a detailed management plan.

The Chief Executive reviews the list of activities and measures of progress on a regular basis with individual managers and the Board reviews a written progress report at each Board meeting.

The Scottish Government attends Board meetings and in this way is kept fully up to date with the progress and performance of the organisation.

## **4. QMS and the Scottish Government's National Performance Framework**

**4.1** As a result of its activities on behalf of the industry QMS contributes to the Scottish Government's primary purpose of 'increasing sustainable economic growth' and to the five strategic objectives and relevant national targets. For reference, the purposes of QMS as set out in the Quality Meat Scotland Order 2008 are:

- to increase efficiency or productivity in the red meat sector
- improve marketing in the red meat sector
- improve or develop services that the red meat sector provides or could provide to the community
- improve the ways in which the red meat sector contributes to sustainable development.

### **4.2 National Performance Framework Strategic Objectives**

QMS' work on behalf of the industry contributes to all five of the Government's Strategic Objectives. QMS' main contribution is to the wealthier, smarter and greener objectives. Some work is also undertaken which contributes to the healthier objective and the safer and stronger objective.

**Wealthier & Fairer** – the overall objective of QMS is to shape a sustainable and prospering Scottish red meat industry. The farming and processing of red meat in Scotland contributes around 0.7% of the Scottish GDP.

**Smarter** – QMS develops and manages the delivery of a range of industry programmes which are specifically designed to transfer knowledge and increase the uptake of new ideas which help to improve efficiency and drive innovation in red meat production.

**Greener** – QMS continues to engage with Government and the industry to enhance the environmental sustainability of red meat production.

**Healthier** – QMS contributes to the Government's strategic objective of a healthier Scotland through promoting the benefits of eating red meat as part of a healthy, balanced diet. For example work already undertaken and future work will contribute to the Obesity Routemap.

**Safer & Stronger** – through its work in shaping a sustainable and prospering Scottish red meat industry, QMS is helping to ensure long-term food security for Scotland.

### 4.3 National Performance Framework National Outcomes

There are 16 National Outcomes as follows:

- 1 *We live in a Scotland that is the most attractive place for doing business in Europe*
- 2 *We realise our full economic potential with more and better employment opportunities for our people*
- 3 *We are better educated, more skilled and more successful, renowned for our research and innovation*
- 4 *Our young people are successful learners, confident individuals, effective contributors and responsible citizens*
- 5 *Our children have the best start in life and are ready to succeed*
- 6 *We live longer, healthier lives*
- 7 *We have tackled the significant inequalities in Scottish society*
- 8 *We have improved the life chances for children, young people and families at risk*
- 9 *We live our lives safe from crime, disorder and danger*
- 10 *We live in well-designed, sustainable places where we are able to access the amenities and services we need*
- 11 *We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others*
- 12 *We value and enjoy our built and natural environment and protect it and enhance it for future generations*
- 13 *We take pride in strong, fair and inclusive national identity*
- 14 *We reduce the local and global environmental impact of our consumption and production*
- 15 *Our people are able to maintain their independence as they get older and are able to access appropriate support when they need it*
- 16 *Our public services are high quality, continually improving, efficient and responsive to local peoples' needs*

### 4.4 QMS' Contribution to the National Outcomes

QMS, through its stakeholders, contributes to six of the 16 National Outcomes.

*We realise our full economic potential with more and better employment opportunities for our people* (National Outcome 2) - farming and primary processing of red meat contribute £2.1bn to the Scottish economy. QMS brands of Scotch Beef, Scotch Lamb and Specially Selected Pork add value to the industry and enhance Scotland's reputation as a land of food and drink. The red meat industry is a significant contributor to Scotland's food exports. Direct employment in the rearing of beef cattle, sheep and pigs and the primary processing sector amounts to approximately 27,000 jobs (both full and part-time).

*We are better educated, more skilled and more successful, renowned for our research and innovation* (National Outcome 3) – by developing and managing the delivery of a range of industry programmes specifically designed to transfer knowledge and increase the uptake of new ideas to help improve efficiency and drive innovation, for example, the Monitor Farms programme.

*We live longer, healthier lives* (National Outcome 6) – through our work with consumers of all ages on the importance of red meat in a healthy diet and lifestyle. QMS delivers a range of health and education activities from school visits to a school meat vouchers scheme and a healthy living bursary. A range of support materials is also produced and we work closely with National Diet Resources UK. QMS also works with partners such as the Royal Highland Education Trust on events and farm visits.

*We value and enjoy our built and natural environment and protect it and enhance it for future generations* (National Outcome 12) – our farmer stakeholders understand the land and act as custodians of the countryside significantly enhancing its biodiversity and encouraging visits to the outdoors.

*We reduce the local and global environmental impact of our consumption and production* (National Outcome 14) – through developing our understanding of the effects of climate change and reducing our ecological footprint. For example, waste reduction measures such as encouraging sourcing and purchasing of Scottish red meat products rather than imported products. Also, by providing support to the industry to improve carcass yield through increased sales of 5<sup>th</sup> quarter products. Finally, knowledge transfer activities which result in better breeding policies and healthier livestock increase production efficiency and, therefore, reduce the environmental impact of production.

*Our public services are high quality, continually improving, efficient and responsive to local peoples' needs* (National Outcome 16) – for example QMS engages in several activities designed to deliver continuous improvement in the red meat production chain. QMS also produces annual benchmarking data on cattle and sheep enterprise profitability in Scotland which is widely used by farmers and their advisors as a continuous improvement tool for increased efficiency.

#### **4.5 Measuring Progress in the National Performance Framework**

The organisation currently has an overall strategy and six specific strategies. Objectives for the implementation of these strategies are set and these objectives are further supported by a list of activities and performance measures which are specified in a detailed management plan.

The Board considers a written progress report in advance of each Board meeting and the Scottish Government attends Board meetings and in this way is continually kept up to date with the performance of the organisation.

### **5. QMS and Programme for Government Themes**

In late 2014, the new First Minister, Nicola Sturgeon announced a range of plans to be introduced over the next year to help to create a fairer and more prosperous society. QMS recognises the importance of this aim. Sustainable economic growth is key to the future development of the red meat industry in Scotland and all of QMS' activities relate to this theme. The promotion of fairness and reducing inequality is a theme which resonates well with QMS as an organisation (see Section 9).

Involvement and participation is another theme which fits well with QMS' activities on behalf of the industry. QMS is highly engaged with its range of stakeholders (see Section 1.4) and in particular our knowledge transfer/exchange activities have increased significantly during the 14/15 financial year following a reorganisation of our industry development department. Marketing campaigns now utilise social media and have created opportunities for consumers to engage more directly with the Scotch Beef, Scotch Lamb and Specially Selected Pork brands.

## **6. Review of Past Performance**

Each year QMS lays before Parliament its Annual Report & Accounts giving a comprehensive review of its activities for the past year. In the interests of efficiency this review is not included in this Corporate & Business Plan.

## **7. Statement on Information & Communications Technology**

Quality Meat Scotland (QMS) is a knowledge-based organisation and is focussed on interpreting information and developing knowledge for levy payers and other stakeholders. An effective in-house Information and Communications Technology (ICT) strategy is integral to the success of the workings of QMS.

QMS will operate an in-house ICT system which provides sufficient resources to help provide the industry with accurate and timely information. All of QMS' in-house systems and networks will be effectively protected from accidental or malicious disruption.

QMS will provide employees with opportunities to acquire the skills to collate, store and deliver information in accordance with the organisation's needs and national regulations. In order to carry out these tasks suitable hardware and software will be provided to optimise communication links with target audiences.

In order to preserve the integrity of its ICT systems, QMS will ensure that suitable support is available to users in order to minimise the effects of a system shutdown.

## **8. Statement on Public Bodies Climate Change Duties**

In recognition of its responsibilities under the Climate Change (Scotland) Act 2009 QMS will take appropriate steps to mitigate, adapt and act in a sustainable manner. QMS will participate in Scottish public sector sustainability reporting.

In its work with stakeholders to improve business sustainability, QMS will continue to promote awareness of mitigation and adaptation strategies and the adoption of best practice to secure carbon reducing production efficiencies across the supply chain.

## **9. Statement on Equality**

Quality Meat Scotland aims to be an equal opportunity employer. Appointments to Quality Meat Scotland and internal promotions will be made solely on the individual employee's ability, skill, competence and potential.

Our policy is not to discriminate on any grounds including race, colour, nationality or ethnic or national origin, religion or beliefs, gender, gender reassignment, sexual orientation, pregnancy and maternity, marriage or civil partnership, age, responsibility for dependants, HIV status or disability.

## 10. 3 Year Forecast Income and Expenditure 2015/16-2017/18

	Proposed Budget 2015/16 £	Estimate 2016/17 £	Change on Prv Year %	Estimate 2017/18 £	Change on Prv Year %
<b>INCOME</b>					
Levy (1)	4,024,363	4,187,000	4%	4,285,000	2%
Assurance Schemes fees	1,453,973	1,490,322	2.5%	1,527,580	2%
Grant income (2)	557,395	0	(100%)	0	0%
Brands Strengthening	262,000	78,690	(70%)	45,000	(43%)
Other income	20,000	20,000	0%	20,000	0%
Bank Interest	17,500	17,500	0%	17,500	0%
	<b>6,335,231</b>	<b>5,793,512</b>	<b>(9%)</b>	<b>5,895,080</b>	<b>2%</b>
<b>EXTERNAL SPEND</b>					
Fees for Assurance schemes	1,415,058	1,450,434	2.5%	1,486,695	2.5%
Brands Integrity funded by levy/schemes income	52,000	50,017	(3.8%)	51,297	2.6%
Brands Integrity - Brands Strengthening	62,000	45,000	(27.4%)	45,000	0.0%
	<b>1,529,058</b>	<b>1,545,452</b>	<b>1.1%</b>	<b>1,582,992</b>	<b>2.4%</b>
Communications - funded by levy	432,134	415,657	(4%)	426,294	3%
Communications - Brands Strengthening	5,000	0	(100%)	0	0%
	<b>437,134</b>	<b>415,657</b>	<b>(5%)</b>	<b>426,294</b>	<b>3%</b>
Economics Services - funded by levy	176,394	169,668	(4%)	174,010	3%
Industry Development - funded by levy	681,913	655,913	(4%)	672,698	3%
Industry Development - grants	172,150	0	(100%)	0	0%
Industry Development - Brands Strengthening	40,000	33,690	(16%)	0	(100%)
	<b>894,063</b>	<b>689,603</b>	<b>(23%)</b>	<b>672,698</b>	<b>(2%)</b>
Marketing - funded by levy	1,604,296	1,543,127	(4%)	1,582,616	3%
Marketing - grants	385,245	0	(100%)	0	0%
Marketing - Brands Strengthening	155,000	0	(100%)	0	0%
Marketing - other income	20,000	20,000	0%	20,000	0%
	<b>2,164,541</b>	<b>1,563,127</b>	<b>(28%)</b>	<b>1,602,616</b>	<b>3%</b>
<b>TOTAL EXTERNAL SPEND</b>	<b>5,201,190</b>	<b>4,383,508</b>	<b>(16%)</b>	<b>4,458,611</b>	<b>2%</b>
<b>STAFF COSTS</b>	843,219	860,083	2%	877,285	2%
<b>TRAVEL AND SUBSISTENCE</b>	74,000	75,480	2%	76,990	2%
<b>BOARD AND EXECUTIVE COSTS</b>	221,965	226,404	2%	230,932	2%
<b>PROPERTY COSTS</b>	73,100	74,562	2%	76,054	2%
<b>OFFICE COSTS</b>	171,757	173,474	1%	175,209	1%
<b>TOTAL INTERNAL SPEND</b>	<b>1,384,041</b>	<b>1,410,004</b>	<b>2%</b>	<b>1,436,469</b>	<b>2%</b>
<b>TOTAL EXPENDITURE</b>	<b>6,585,231</b>	<b>5,793,512</b>	<b>(12%)</b>	<b>5,895,080</b>	<b>2%</b>
<b>NET SURPLUS /(DEFICIT)</b>	<b>(250,000)</b>	<b>0</b>		<b>0</b>	

(1) Assumes no increase in levy rates

(2) Budget excludes grants applied for but not awarded.

## **11. Board Membership**

Jim McLaren, Chairman

Ronnie Eunson

Jock Gibson

Scott Henderson

Julie Fitzpatrick

Sarah Mackie

Alan McNaughton

George Milne

Kate Rowell

John Scott

Philip Sleigh

Louise Welsh

**Quality Meat Scotland**

**February 2015**