



REPORT

To: Development Committee

5 June 2008

From: Principal Officer - Marketing

DV25-F Launch of Shetland.org Website

1.0 Introduction

- 1.1 The purpose of this report is to advise on the completion and launch of the www.shetland.org gateway website. The site has been in development since October 2007.
- 1.2 A brief presentation on the website will be given following today's meeting providing Committee members with the opportunity to view the site and ask questions. The presentation will take around 15 minutes.
- 1.3 The establishment of a major website to be promoted as the primary electronic gateway to Shetland was one of several projects which were addressed in the marketing service action plan for 2007/2008.
- 1.4 Although it does offer a general gateway, the site is aimed particularly at people outside Shetland who may be interested in moving to Shetland. They could be doing so to take up an advertised post or, as some people here already do, they might continue to work in their usual job but from a Shetland base. Alternatively, they might be interested in moving their business to Shetland, or setting up a completely new business here. The site is therefore intended to help achieve the Council's aim of increasing Shetland's population. The site aims to enthuse and inspire people, whether or not they have any prior knowledge of Shetland; however, it is also honest about the advantages and disadvantages of living here.
- 1.5 In its wider, 'gateway' role, the site should also be a useful resource for anyone else looking for information about Shetland. The internet now provides a primary source of information for people from all walks of life including journalists, holiday-makers, business visitors,

researchers and students. It is estimated that the number of Internet users in the world is in excess of one billion people representing 89% of global GDP.

- 1.6 Commercial research shows that if a customer has a poor experience on a website, not only are they less likely to buy online, but it would also affect their likelihood of doing business with a physical store. The same is likely to apply to places like Shetland and, as the internet becomes more and more popular, the importance of a successfully established and managed internet presence for Shetland is self evident.
- 1.7 The website is aimed at a different audience from the excellent VisitShetland website, but it does complement it. It is quite possible that someone considering a move to Shetland will want to explore what we have to offer during a holiday or short break. Equally, someone who thinks of Shetland first in terms of a holiday might be attracted to settle here.

2.0 Links to Council Priorities

- 2.1 The Council is committed to sustainable development; principal corporate priorities relevant to this report include Marketing Shetland, Skills Development, Economic Diversification and Strengthening Rural Communities.

3.0 www.shetland.org

- 3.1 The aim of the website is:
 - to provide inspiration and information to those interested in moving to Shetland
 - to expand and enhance the islands' reputation.
- 3.2 The following objectives have driven development of the project:
 - create the primary electronic gateway to Shetland;
 - attract people to work and stay in Shetland;
 - provide directly, or guide users to, good quality and accurate information on Shetland;
 - promote the best of Shetland.
- 3.3 The site has been designed to be easy to use and is laid out in the following sections:
 - Learn about Shetland;
 - Work in Shetland;
 - Do Business in Shetland;
 - Move to Shetland;
 - Feature Articles;
 - Contact.

4.0 Financial Implications

- 4.1 The development cost of the website was accommodated within existing budgets. There are no immediate direct financial implications arising from this report.
- 4.2 The ongoing management of the site includes updating, maintenance and dealing with direct enquiries. This will be managed initially on a joint basis by Economic Development Unit staff and site developers, NB Communication.
- 4.3 If the site is to gain and maintain a good reputation, and thus strengthen the Shetland brand, it is essential that all enquiries fed back through the site, both by e-mail and telephone, are dealt with quickly and efficiently. Initial arrangements for doing this have been put in hand; these will be reviewed later in the year when the extent of demand has become clearer.

5.0 Policy and Delegated Authority

- 5.1 This report has been written based on Economic Development Policy Number 25 “ Enable individuals and businesses to develop and promote Shetland products and services with confidence and pride” (Development Committee Minute Reference 01/08, SIC Minute Reference 55/08).
- 5.2 The Development Committee has delegated authority to implement decisions within its remit for which the overall objectives have been approved by the Council, in addition to appropriate budget provision including:

- Economic Strategy

Europe

6.0 Observations

- 6.1 Two key features of the site are the inclusion of positive magazine-style stories about aspects of Shetland and case studies featuring people who have moved to Shetland to live and work. These features help to create a realistic representation of Shetland.
- 6.2 The approach to developing the website content, tone used and style have been influenced by the Shetland brand style guide.
- 6.3 A further website, aimed at an internal, Shetland, audience, is being developed by the Marketing Service at www.shetlandmarketing.org. This site will aim to provide solid advice about every aspect of marketing in Shetland, from market research and product development through to dealing with customer feedback. It will offer inspiration to those already living and working in Shetland, advise on projects being undertaken and provide relevant and up-to-date marketing information in order to help everyone involved in any kind

of business or public activity in Shetland positively to reinforce the islands' reputation.

7.0 Conclusion

- 7.1 There have been several successes realised in marketing Shetland over the last year or so. These will be detailed at the proposed Members' seminar which is detailed in report number DV023 being discussed today.
- 7.2 Today, the importance of Shetland's online presence at official level cannot be stressed enough. As the www.shetland.org website will fill a void in Shetland's current online presence, it is likely that this will be a very positive way in which to promote Shetland as a place.
- 7.3 Ongoing management of www.shetland.org will be a vital component in its success as a promotional tool. The demands of managing the site will only be known in time as usage patterns are established.

8.0 Recommendation

- 8.1 I recommend that the Development Committee notes the progress made on this project as part of the overall marketing strategy for Shetland.

Our Ref: NH/KLM/RF1188
Date: 28 May 2008

Report No: DV025-F



REPORT

To: Development Committee

05 June 2008

From: Communications and Change Management Coordinator

DV019-F THE SHETLAND FOOD DIRECTORY

1.0 Introduction

- 1.1 The production of a local food and drink directory was identified by the industry as a key tool for enhancing information on the availability of local food. These findings were detailed in the Shetland Islands Council commissioned report in 2007 by Professor Morgan entitled "Making Provenance Pay". The Council's Economic Development Unit commissioned this project in January 2008.

2.0 Links to Corporate Plan

- 2.1 This project links to the aims of the Council's Corporate Plan 2008-2011, to "focus on encouraging the development of products and services of high quality that can be promoted with confidence to appropriate markets" and will "encourage the use of local produce in public sector establishments."

3.0 Background

- 3.1 In January 2008, the Council's Economic Development Unit started the directory project and liaised with local industry inviting all interested parties to complete a free entry form for inclusion in the printed booklet and online version of The Shetland Food Directory (www.foodshetland.com).

- 3.2 Several months have been spent collecting data and following up with businesses. It is also worth noting that companies, who have not taken the opportunity to be part of this directory so far, will have the opportunity to submit entries online at www.foodshetland.com.

4.0 Project Objectives

- 4.1 The main reasons agreed for undertaking this project were identified as follows:
- to produce a clear and concise directory of local food and drink in Shetland within a booklet and online format;
 - to create a central tool for marketing and showcasing local produce to a wide audience both locally, nationally and abroad;
 - to support the use of local produce and reduce “food miles”;
 - to provide a networking opportunity for the industry as part of the launch of the directory.

5.0 Financial Implications

- 5.1 There are no financial implications arising from this report. Associated project costs are within the current schemes of delegated authority.

6.0 Policy and Delegated Authority

- 6.1 This report has been prepared based on Economic Development Policy Number 23 “Facilitate new food and drink processing activities” (Development Committee Minute Reference 01/08, SIC Minute Reference 55/08).
- 6.2 The Development Committee has delegated authority to implement decisions within its remit for which the overall objectives have been approved by the Council, in addition to appropriate budget provision including:
- Economic Strategy
 - Europe

7.0 Project Launch

- 7.1 The directory is currently being printed and 20,000 copies will be ready for distribution in June. The website, www.foodshetland.com will be ready to launch at the same time as the printed version of the directory. The website will also allow for directory updates, Shetland recipes and regular industry news items.
- 7.2 Distribution will take place throughout the summer and will be provided to businesses in the directory, Council facilities and will be distributed through the Tourist Information Centre and local tourist attractions. It is also intended to distribute the directory outwith Shetland to key industry contacts.
- 7.3 The formal launch of The Shetland Food Directory will take place during the period of the Johnsmas Foy and launch details will be sent out in due course.

8.0 Recommendation

- 8.1 It is recommended that the Committee note the contents of this report.

Our Ref: FD RF/1200
28 May 2008

Report No: DV019-F



REPORT

To: Development Committee

05 June 2008

From: Research Assistant

REPORT NO: DV017-F Shetland Employment Survey 2007

1.0 Introduction

- 1.1 In June 2007 the Economic Development Unit undertook an extensive survey of employment in Shetland. As well as employment data, the survey also gathered economic information such as skills and training, ICT usage, import and export markets, economic links with primary industries and turnover. This survey represents an update of similar exercises undertaken at regular intervals by the Council's economic development service.

2.0 Link to Council Priorities

- 2.1 This report links into the following Council priorities as set out in Section 2 of the Corporate Plan 2007/11:
- Expand knowledge and build skills

3.0 Background

- 3.1 The survey was carried out in two parts. Every organisation in Shetland that could be identified was sent a six-page questionnaire. Respondents to the postal questionnaire were asked for information which included the type, size and turnover of their organisation, their total employment, and for data on skills and training, sales and exports and the use of information communication technology within the organisation. Factsheets detailing some of the most important information from the survey are attached as Appendix I.
- 3.2 If no return was received a phone interview was undertaken with the organisation or business in question. The information received from the phone interviews was less comprehensive than the postal questionnaires. Only the nature of the organisation and the number and composition of employees (full-time and part-time; male and

female) was asked for. Information on fish catching employment was collected from industry representatives, and SIC employment was collected internally.

- 3.3 542 organisations returned completed questionnaires. In a small number of cases, where organisations/businesses were known to be operating but did not respond to the survey by post or telephone, estimates based on local knowledge and existing information were used. In total 1,014 separate businesses and organisations are included in the survey database.
- 3.4 Due to the difficulty in collecting accurate information at the level required, information about crofting employment is not included in this survey. Non-domiciled oil terminal and transportation jobs are also omitted from the survey.
- 3.5 Part-time jobs are considered to be less than 30 hours per week but are counted as one job. Full-time equivalent (FTE) jobs are defined as one full-time job or three part-time jobs.

4.0 Proposal

- 4.1 This report is for information only.

5.0 Financial Implications

- 5.1 There are no financial implications. This report is for information only.

6.0 Policy and Delegated Authority

- 6.1 This report has been prepared in accordance with the following Economic Development policies (Economic Policy Statement – Executive Committee 9 December 2003 [34/03]; Shetland Islands Council 17 December 2003 [161/03]):

2.2.5 – Skills Infrastructure: continued capacity building to ensure the needs of local industry are identified and met along with the promotion of lifelong learning.

3.8.1 – Ensure that the Council observes the need to develop the private sector in Shetland when planning the employment aspects of service delivery.

- 6.2 The Development Committee has delegated authority to implement decisions within its remit for which the overall objectives have been approved by the Council, in addition to appropriate budget provision, including:
 - Economic Strategy
 - Europe

7.0 Results

- 7.1 Employment in Shetland has increased by 95 jobs (0.8%) in total since 2003, to a total of 12,244 jobs. However, the number of full-time equivalent (FTE) jobs has fallen by 179 (1.5%) in the same time. This is due to an increase in the proportion of total jobs that are classed as part-time. In 2003 37.3% of all jobs were part-time; in 2007 the proportion was 40.4%.
- 7.2 The Services sector remains the most significant area of employment in Shetland, with 70.6% of all FTE jobs, up from 68.3% in 2003. Primary industry figures dropped from 2003, but the sector still maintains a significant level of employment – 11.3% of FTE jobs compared to 15.2% in 2003.
- 7.3 The Construction sector showed an increase in the proportion of FTE jobs – from 7.5% in 2003 to 9.5% in 2007. The Manufacturing sector remained relatively stable, with 8.6% of FTE jobs in 2007 down slightly from 9% in 2003.
- 7.4 The public sector in Shetland accounts for 5.7% of all organisations in the Employment Survey database, but is responsible for 37.2% of all FTE jobs. The private sector makes up 90.9% of surveyed organisations and employs 59.2% of FTE jobs. The remainder of jobs (3.7%) and organisations (3.4%) are classed as voluntary, charitable or “other”.
- 7.5 The two Community Council Areas with the highest number of jobs – Lerwick and Delting – account for 71% of all FTE jobs in Shetland. Lerwick alone accounts for 60.5%. The Community Council Area with the lowest number of jobs is Fetlar, with 0.2% of FTE jobs in Shetland.
- 7.6 The three industry sectors with the highest employment – Public Administration, Wholesale & Retail and Construction – account for 50% of FTE jobs. Public Administration alone accounts for 29.2% of FTE jobs.
- 7.7 Only 14% of organisations in Shetland claim to have no ICT provision, compared to 19% in 2003. 83% of respondents to the survey use e-mail, 82% have internet access and 44% have their own marketing/information website. These figures have all improved since 2003, when the figures were 73% for e-mail, 77% for internet access and 35% for websites.
- 7.8 13% of organisations/businesses claim that over 50% of their turnover is directly dependent on the local fishing industry. Only 4% claim that the same proportion of turnover is directly dependent on the oil industry.

- 7.9 23% of those surveyed claimed that they are experiencing difficulties recruiting suitably skilled staff. 40% funded or arranged off-the-job training for their staff in the previous 12 months.

8.0 Conclusions

- 8.1 The high return rate of the survey means that the figures give an accurate picture of comparisons and trends of employment in Shetland. However, due to the nature of such surveys, the time taken to complete the survey and the number of estimates contained within the figures, caution should be taken with absolute figures.
- 8.2 As in both the 2000 and 2003 surveys, the increase in the total number of jobs, distinct from FTE jobs, is mainly due to an increase in part-time employment. The number of jobs classed as part-time increased by 9%, whereas the number of jobs classed as full-time fell by 4%.
- 8.3 When comparing the 2007 survey to the exercise carried out in 2003, it is important to bear in mind that between the two surveys Shetland suffered the economic shock of the closure of RAF Saxa Vord in Unst. The small increase in employment recorded by the 2007 survey is indicative of a larger increase which has been masked by the direct and indirect consequences of the loss of RAF Saxa Vord. However, the effects of this can be seen in the 49.5% drop in FTE jobs in Unst between 2003 and 2007.
- 8.4 The public sector, in particular the Council, remains the dominant employer in Shetland. SIC is responsible for over a quarter of all FTE jobs in Shetland, and almost one-third of jobs in total.

9.0 Recommendations

- 9.1 This report is for information only.

Date: 28 May 2008
Our Ref: TC/KLM

Report No: DV017-F



REPORT

To: Development Committee

5 June 2008

From: European Officer

REPORT NO: DV021-F UPDATE ON EUROPEAN ACTIVITIES

1.0 Introduction

- 1.1 The purpose of this report is to update Members on current European issues and activities.

2.0 Link to Corporate Priorities

- 2.1 Maintaining links with Europe is a key component of the aims to achieving a sustainable economy as identified within Shetland Island Council's Corporate Plan 2008-2011.

3.0 Funding Streams

3.1 Highlands & Islands Convergence Programme 2007-2013

Shetland has benefited greatly from Structural Funds assistance in the past. The H&I's Convergence Programme 2007-2013 provides financial assistance in the form of European Regional Development Fund (ERDF) and European Social Fund (ESF) grants. The programme has an overall value of just over €174 million (approximately £138m at today's exchange rates). This is approximately 50% less funding than the previous programme and, as such, there are tighter restrictions on what is eligible for funding. There is also less of a competitive bidding element due to pre-determined funding allocations to UHI, HIE and Community Planning Partnerships. The key sectors for support identified are: renewable energy; tourism and cultural industries; food and drink; forestry; energy-related activities; and life/health (and other) sciences.

3.2 LEADER Programme 2007-2013

Shetland Islands Council is Lead Partner for the new LEADER programme. LEADER (Liaison Entre Actions de Développement Économique Rurale) is an EU funding initiative mainstreamed through the Scottish Rural Development Programme with a focus on 'bottom up' community economic development. There are 2 budgets: a main LEADER budget of £38m for Scotland; and a Convergence budget of £19.2m solely for the H&I's region. Shetland has been awarded £630,000 from the main LEADER budget and still awaits an allocation from the Convergence budget. There is currently a significant debate among H&I's partners and the Scottish Government around the allocation of the Convergence fund, however we are hopeful of receiving an allocation somewhere between £1.5m and £2m.

A Local Action Group has been established and will consider applications for funding. There are various project ideas in the pipeline and as soon as the Scottish Government finalises the application form and scheme guidance, these will be progressed.

3.3 European Fisheries Fund (EFF) 2007-2013

The EFF is the successor to the FIGG programme 2000-2006 and provides financial assistance to the fishing and aquaculture industry. Shetland did very well out of the FIGG programme securing over £6 million of funds into Shetland over a 6 year period. Within the current programme, the H&I's has a ring-fenced budget of £12.4 million for the next 6 years.

The UK Operational Programme is not yet in place and is currently in the final stages of consultation. Shetland Islands Council will be making a contribution to the consultation following discussion with Fisheries Panel members and other interested parties. According to the latest Scottish Government timescales, the fund should be open in the Autumn for applications. Louise Donnelly, Head of the EFF Programme in Scotland, will be in Shetland from 4-6 June and will meet with Council officials to discuss various fisheries issues.

4.0 Conference of Peripheral Maritime Regions (CPMR) Activities

- 4.1 Shetland Islands Council is a Member of the European political lobbying organisation CPMR. The CPMR represents the interests of 154 peripheral and maritime regions of Europe to ensure that the needs of the most remote areas are taken into account in the drafting of European policy. While the CPMR is not a formal EU institution it is regarded as an influential body in lobbying on behalf of peripheral regions. The CPMR provides us with a valuable platform from which to lobby EU officials directly on issues of importance for Shetland and also gain support from other areas with similar issues.

- 4.2 The CPMR is organised into geographical commissions in order to make it easier to articulate the particular circumstances of each of the major sea basins. Shetland actively participates in the North Sea Commission and the Islands Commission. Councillor Cluness is Vice-President of the North Sea Commission, while Councillor Simpson chairs the CPMR Fisheries Intercom Group, and Councillor Angus is the Substitute Member on the CPMR Political Bureau which oversees the strategic direction of the CPMR.
- 4.3 A major focus of the CPMR's activity in the last two years has been examination of the EU's draft proposals for a maritime policy and highlighting areas where there are omissions or inconsistencies. Shetland has been actively participating in this process. The CPMR is also in the process of undertaking a comprehensive review of its overall remit. This will help inform the main objectives its members wish to pursue in the forthcoming years as well as defining the scope of its activities.

5.0 Current EU Policy Issues

5.1 Proposed EU Integrated Maritime Policy

The Council has been closely following developments of this policy since publication of the first proposals back in 2006, and inputting as appropriate as mentioned in paragraph 4.3. Nicole Schaefer from the EU's Fisheries and Maritime Affairs Directorate which has responsibility for maritime policy, is planning to come to Shetland on 16 June on a fact finding mission to learn more about the Marine Spatial Plan project being carried out by NAFC. It will also be a useful opportunity for her to gain an understanding of the implications of a Maritime Policy on islands such as ours.

5.2 Future of Cohesion Policy

A significant debate is about to get underway on the future of EU cohesion policy post 2013. The main aim of cohesion policy is to reduce disparities among regions and assist regions which are lagging behind the more prosperous areas by supporting them in exploiting their economic potential. Cohesion policy is also the basis for determining funding allocations - such as the European Regional Development Fund - to EU regions. Current thinking is that a future cohesion policy needs to have a stronger territorial dimension to take account of those regions suffering from permanent and natural handicaps, such as islands and sparsely populated areas. The consultation process will start through the publication of a Green Paper in September and we should look to be participating in this debate.

6.0 Financial Implications

- 6.1 The financial implications arising from this report are potential travel and subsistence costs associated with attending forthcoming external meetings. These costs can be met from existing budgets.

7.0 Policy & Delegated Authority

- 7.1 This report is relevant to three of the aims within the Economic Development Policy Statement 2007-2011 which was approved by the Development Committee on 24 April 2008 (01/08) and by the Council on 14 May 2008 (55/08). The relevant aims are: encourage enterprise and sustainable growth; expand knowledge and build skills; and improve access and extend opportunities.
- 7.2 The Development Committee has delegated authority to implement decisions within its remit for which the overall objectives have been approved by the Council, in addition to appropriate budget provision including:
- Economic Strategy
 - Europe
- 7.3 As this is an information report, there is no requirement for a decision to be made.

8.0 Conclusion

- 8.1 This report provides an overview and update of current EU issues and activities.

9.0 Recommendation

- 9.1 Members are asked to note the contents of this report.

Our Ref: SJS/R4/10/6
Date: 27 May 2008

Report No: DV021-F



REPORT

To: Development Committee

05 June 2008

From: Interim Head of Economic Development

DV031-F Economic Development Service 3 Year Financial Plan

1.0 Introduction

- 1.1 The purpose of this report is to present to Members a 3 year financial plan for Economic Development.

2.0 Links to Corporate Plan

- 2.1 This report links to the Council's Corporate Plan 2008-2011 which sets out a range of priorities to more effectively and efficiently organise the council's business.

3.0 Background

- 3.1 The Shetland Economic Development Policy Statement 2007-2011 was adopted by the Development Committee at its meeting on 24 April 2008 (Development Committee Min Ref 02/08). At this meeting the Interim Head of Economic Development agreed to produce a detailed financial plan which would identify the resources required to deliver the Policy Statement objectives over the next 3 years.

4.0 Proposal

- 4.1 A detailed financial plan is attached in Appendix 1. This plan has been produced after consultation with Industry Panels and Economic Development staff.
- 4.2 This report is for information only.

5.0 Financial Implications

- 5.1 On the basis of this model there would be a requirement to draw £5.8m from the reserve fund in years 2 and 3. The current financial strategy is for total spend of £6m in 2008/09, £6.7m in 2009/10 and £6.8m in 2010/11. The request to utilise £5.8m of this by EDU would have to be weighed up against other bids for resources in the next budget exercise.

6.0 Policy and Delegated Authority

- 6.1 This report has been prepared in relation to the Economic Development Policy Statement 2007 – 2011.

7.0 Conclusion

- 7.1 The attached 3 year financial plan is intended as a guide to the annual budgetary process and indicates that the aspirations of the SIC Economic Development Policy Statement 2007-2011 can be achieved with £31m of investment into the local economy over the period of the policy. The model is based on an annual Reserve Fund bid of £5.8m and assumes utilisation of the existing resources of the SDT plus ongoing returns from existing investments.

8.0 Recommendation

- 8.1 This report is for information only

NG/KLM
29 May 2008

Report No: DV031-F

Sector	Description	Category/ Year	Four Year Budget	Three Year balance	2008 Commercial		2008 Grants		2008 Total		2009 Commercial		2009 Grants		2009 Total		2010 Commercial		2010 Grants		2010 Total		Three Year balance
			£,000	£,000	Act	Bud	Act	Bud	Act	Bud	Act	Bud	Act	Bud	Act	Bud	Act	Bud	Act	Bud	Act	Bud	check
					£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	
1	Fisheries: Replace Whitefish fishing vessels	Loans / Equity	4,500	3,345		345			0	345		1,500			0	1,500		1,500			0	1,500	3,345
	Quota / licence purchase	participating int	2,000	1,486	200	1,486			200	1,486					0	0					0	0	1,486
	Mentoring programme	Grants	44	33			11	11	11	11			11	11	11	11			11	11	11	11	32
2	Implement Seafood Plan Targets	Grants	356	265			89	89	0	89			88	88	0	88			88	88	0	88	265
3	Fisheries and Aquaculture Development Projects	Loans / Equity	1,300	966		322			0	322		322			0	322		322			0	322	966
	European Fisheries Match funding (EFF)	Grants	400	297			19	99	19	99			11	99	11	99			99	99	0	99	297
	NAFC core funding	Grants	8,000	5,946			1,408	1,982	1,408	1,982			1,760	1,982	1,760	1,982			1,760	1,982	1,760	1,982	5,946
	Total Fisheries		16,600	12,338	200	2,154	1,438	2,181	1,638	4,334	0	1,822	1,782	2,180	1,782	4,002	0	1,822	1,771	2,180	1,771	4,002	12,338
4	Tourism: re-establish and develop	Grants	150	111			37		0	37			37		0	37			37		0	37	111
	Air and Sea links to Shetland																						
5	Quality improvements to visitor accommodation	Loans	1,000	743		248			0	248		248			0	248		248			0	248	743
	Quality improvements to visitor accommodation	grants	1,000	743			248		0	248			248		0	248			248		0	248	743
	Develop commercial activities for visitors	Loans	200	149		50	87		87	50		50			0	50		50			0	50	149
	Develop commercial activities for visitors	grants	200	149			71	50	71	50			50		0	50			50		0	50	149
	Encourage Wet weather attractions	Grants	90	67			22		0	22			22		0	22			22		0	22	67
	Support Heritage Tourism and Geopark status	Grants	3,000	2,230			648	850	648	850			651	690	651	690			583	690	583	690	2,230
6	Support Promotion of Shetland by Visit Scotland	Grants	1,600	1,189			396		0	396			396		0	396			396		0	396	1,189
	Package Holidays development / Online booking	Grants	400	297			99		0	99			99		0	99			99		0	99	297
7	Facilitate Tourism projects, improve quality standards, run local Cultural / Heritage events	Grants	100	74			25		0	25			25		0	25			25		0	25	74
		Grants	100	30			10		0	10			10		0	10			10		0	10	30
	Total Tourism		7,840	5,783	0	297	806	1,737	806	2,034	0	297	651	1,577	651	1,874	0	297	583	1,577	583	1,874	5,783
	Agriculture: refurbish Community Abattoirs and foster growth in direct income	Grants	2,400	2,400			1,200		0	1,200			1,200		0	1,200			0		0	0	2,400
	support development of Air dried meat process	Grants	100	74			25		0	25			25		0	25			25		0	25	74
9	new assistance / local procurement schemes	Grants	2,000	1,486			495		0	495			495		0	495			495		0	495	1,486
10	marketing and value added solutions	Grants	200	149			50		0	50			50		0	50			50		0	50	149
	Total Agriculture		4,700	4,109	0	0	0	1,770	0	1,770	0	0	0	1,770	0	1,770	0	0	0	570	0	570	4,109
11	Textiles: encourage expansion of Sector	Grants	100	74			25		0	25			25		0	25			25		0	25	74
		Loans / Equity	100	74		25			0	25		25			0	25		25			0	25	74
	Total Textiles		200	149	0	25	0	25	0	50	0	25	0	25	0	50	0	25	0	25	0	50	149
12	Oil Industry: Sullom Voe Terminal Port Study	Grants	50	37			12		0	12			12		0	12			12		0	12	37
13	diversification of SVT	Grants	100	74			25		0	25			25		0	25			25		0	25	74
	diversification of SVT	Loans / Equity	500	372		124			0	124		124			0	124		124			0	124	372
	Total Oil Industry		650	483	0	124	0	37	0	161	0	124	0	37	0	161	0	124	0	37	0	161	483
14	Decommissioning projects	Loans / Equity	500	372			124		0	124			124		0	124			124		0	124	372
	Total decommissioning		500	372	0	0	0	124	0	124	0	0	0	124	0	124	0	0	0	124	0	124	372
	New and Emerging Industries: Creative Industries																						
15	Broadband services-feasibility study	Grants	100	74			25		0	25			25		0	25			25		0	25	74
	Full Broadband Service	Grants	100	74			25		0	25			25		0	25			25		0	25	74
	Point of Presence set up - high speed data links	Grants	300	223			74		0	74			74		0	74			74		0	74	223
	Point of Presence set up - high speed data links	Loans	300	223		74			0	74		74			0	74		74			0	74	223
16	Mareel	Grants	1,000	743			323	248	323	248			321	248	321	248			321	248	321	248	743

	Creative Industry development	Grants	400	100		33	0	33		33	0	33		33	0	33	100
	Total New and Emerging Industry		2,200	1,438	0	74	323	405	323	480	0	74	321	405	321	479	1,438
	Renewable Energy: continue development of Viking Energy	Grants	200	149		50	0	50		50	0	50		50	0	50	149
17	Other renewable (MARINE) projects across Shetland	Grants	100	100		67	0	67		33	0	33		0	0	0	100
	Foula phase 2	Grants	150	150		0	0	0		100	0	100		50	0	50	
	Terrestrial renewable projects,	Grants	400	400		200	0	200		100	0	100		100	0	100	400
19	Consolidation of PURE Hydrogen Unst project	Grants	0	0		0	0	0		0	0	0		0	0	0	0
	Total Renewable		850	799	0	0	0	317	0	317	0	0	0	283	0	200	799
20	General: Study into Dry Dock provision	Grants	50	20		20	0	20		0	0	0		0	0	0	20
21	develop new activities in Shetland	Grants	20	15		5	0	5		5	0	5		5	0	5	15
22	Expansion of new Manufacturing and Service Business	Loans / Equity	600	446	700	149		700	149		149		0	149		0	446
23	Food and Drink projects	Loans / Equity	200	149		50	0	50		50	0	50		50	0	50	149
	Total General		870	629	700	198	0	25	700	223	0	198	0	5	0	203	629
	Marketing: Creation of a Shetland Brand book and range of support materials	Grants	120	90		30	0	30		30	0	30		30	0	30	90
24	Establish www.shetland.org	Grants	12	6		2	0	2		2	0	2		2	0	2	6
	Assist 10 new Food and Drink projects	Grants	24	18		6	0	6		6	0	6		6	0	6	18
	Establish a Shetland food website	Grants	16	4		2	0	2		1	0	1		1	0	1	5
	Support development of the Johnsmas Foy 2008-2011	Grants	640	480		160	0	160		160	0	160		160	0	160	480
	Host 4 marketing conferences in thematic areas	Grants	128	96		32	0	32		32	0	32		32	0	32	96
	Completion of 8 initiatives or promotions	Grants	560	420		140	0	140		140	0	140		140	0	140	420
	Assist 100 business (MDP)	Grants	500	375		125	0	125		125	0	125		125	0	125	375
25	Tall Ships and Hamefarin	Grants	1,500	1,115		372	0	372		372	0	372		372	0	372	1,115
	Total Marketing		3,500	2,604	0	0	0	869	0	869	0	0	0	868	0	868	2,605
26	Community and People: Community enterprise schemes	Grants	200	149		31	50	31	50		50	0	50		50	0	149
	Rural Shops improvement schemes	Grants	200	149		50	0	50		50	0	50		50	0	50	149
	Retain active rural population	Grants	200	149		50	0	50		50	0	50		50	0	50	149
27	Enable individuals to achieve full economic potential - engage with learning centres	Grants	210	156	70	52	70	52		70	52	70	52		70	52	156
	re-invigorate Graduate Placement Scheme	Grants	20	15		5	0	5		5	0	5		5	0	5	15
	Better integration of Migrant workers	Grants	20	15		5	0	5		5	0	5		5	0	5	15
	support Enterprise Youth Projects	Grants	10	7		2	0	2		2	0	2		2	0	2	7
	Support COPE' s development initiatives	Grants	1,000	1,015		315	315	315	315		350	350	350	350	350	350	1,015
	Total People and Community		1,860	1,654	0	0	416	528	416	528	0	0	420	563	420	563	1,654
	Business Guidance and Engagement: Business Gateway	Grants	200	149		50	0	50		50	0	50		50	0	50	149
	engage business mentors	Grants	60	45		15	0	15		15	0	15		15	0	15	45
29	Set up Industry Panels / Chamber ofCommerce	Grants	100	74		25	0	25		25	0	25		25	0	25	74
	Total Business Guidance and Engagement		360	268	0	0	0	89	0	89	0	0	0	89	0	89	268
	Total investment across all sectors		40,130	30,624	900	2,872	2,983	8,106	3,883	10,978	0	2,540	3,173	7,925	3,173	10,465	30,625
	excl COPE		39140	29,090												10,151	
	approved budget		40140	30105													
	deficit			519													

Description	Four Year Budget	2008-11 balance	2008		2008		2008			2009		2009		2009			2010		2010		2010			Three year budget
			Commercial		Grants		Total		Bal to	Commercial		Grants		Total		Bal to	Commercial		Grants		Total		Bal to	
			Act	Bud	Act	Bud	Act	Bud	spend	Act	Bud	Act	Bud	Act	Bud	spend	Act	Bud	Act	Bud	Act	Bud	spend	
	£,000	£,001	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Fisheries- includes NAFC	16,600	12,338	200	2,154	1,438	2,181	1,638	4,334	2,696	0	1,822	1,782	2,180	1,782	4,002	2,220	0	1,822	1,771	2,180	1,771	4,002	2,231	12,338
Tourism	7,840	5,783	0	297	806	1,737	806	2,034	1,228	0	297	651	1,577	651	1,874	1,224	0	297	583	1,577	583	1,874	1,292	5,783
Agriculture	4,700	4,109	0	0	0	1,770	0	1,770	1,770	0	0	0	1,770	0	1,770	1,770	0	0	0	570	0	570	570	4,109
Textiles	200	149	0	25	0	25	0	50	50	0	25	0	25	0	50	50	0	25	0	25	0	50	50	149
Oil Industry	650	483	0	124	0	37	0	161	161	0	124	0	37	0	161	161	0	124	0	37	0	161	161	483
Decommissioning	500	372	0	0	0	124	0	124	124	0	0	0	124	0	124	124	0	0	0	124	0	124	124	372
New and Emerging Industry	2,200	1,438	0	74	323	405	323	480	157	0	74	321	405	321	479	158	0	74	321	405	321	479	158	1,438
Renewables	850	799	0	0	0	317	0	317	317	0	0	0	283	0	283	283	0	0	0	200	0	200	200	799
General	870	629	700	198	0	25	700	223	-477	0	198	0	5	0	203	203	0	198	0	5	0	203	203	629
Marketing	3,500	2,604	0	0	0	869	0	869	869	0	0	0	868	0	868	868	0	0	0	868	0	868	868	2,605
People and Community	1,860	1,654	0	0	416	528	416	528	112	0	0	420	563	420	563	143	0	0	420	563	420	563	143	1,654
Business Guidance and Engagement	360	268	0	0	0	89	0	89	89	0	0	0	89	0	89	89	0	0	0	89	0	89	89	268
Funds issued for economic development	40,130	30,624	900	2,872	2,983	8,106	3,883	10,978	7,095	0	2,540	3,173	7,925	3,173	10,465	7,292	0	2,540	3,095	6,642	3,095	9,182	6,088	30,625
Capital funds returned from economic development Loan instalments repaid - active portfolio Hire Purchase Receivership recoveries Total capital recovered							2008			2009			2010											
							Act	Bud	spend	Act	Bud	spend	Act	Bud	spend	Act	Bud	spend	Act	Bud	spend	Act	Bud	spend
							£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
							1428						1528								1628			
							65						65								65			
							500						100								100			
							1993						1693								1793			
Revenue from economic investment							0						0								0			
Loan interest							618						668								718			
Bank - Invested cash interest							350						200								100			
Dividends							154						154								154			
Whitefish Quota rental							540						572								607			
Investment management fees							3						3								3			
Other income, including leases							10						10								10			
Total revenue from economic investment							1675						1607								1592			
							0						0								0			
Total direct costs attributed to economic investment							546						546								546			
							0						0								0			
Total general Support costs							1269						1269								1269			
							0						0								0			
Total Direct plus general Support Costs							1815						1815								1815			
Net operating cost							140						207								223			
Reserve fund grant received							5800						5800								5800			
Opening Development reserved funds	9000	est																						
Closing funds							5675						2496								683			

7337.6

4085.4

1589.35



REPORT

To: Development Committee

5 June 2008

From: Marketing Service, Economic Development Unit

DV023-F

Marketing Shetland: Proposed Members' Workshop

1.0 Introduction

- 1.1 The purpose of this report is to propose possible dates for a marketing workshop for Members.
- 1.2 Just over a year ago, the Executive Committee approved an outline marketing strategy to guide work on marketing within the Economic Development Unit. A number of actions were proposed and the marketing team has been pursuing these. The two essential tasks were seen as
 - building local confidence in marketing Shetland and its products; and
 - developing and extending Shetland's reputation as a place from which (or in which) the discriminating customer can obtain products and services of quality and integrity that justify a relatively high price.
- 1.3 In connection with building confidence, there was a need to develop a better understanding of the marketplace, since the difficulties of engaging with the market from a base in a relatively remote island community are not to be under-estimated. We also wanted to gain a better understanding of how marketing was presently being undertaken by Shetland businesses. Studies have been undertaken to help us understand where the barriers may be and how new opportunities might be seized.

- 1.4 Building a reputation is often thought to be simply a matter of promotion, but in fact it depends, fundamentally, on having products and services of the kind and the quality that a discriminating market wants. In this connection, it makes sense to build on areas that are already strong: native lamb and traditional music are two significant examples. Over the last year or so, we have worked to develop and expand reputation where we knew we were on very firm ground.
- 1.5 In the Marketing Service, we have now reached a point where the lessons from this first year or so of focused activity are becoming clear. We believe it is time to draw up a firmer plan that will direct activity for a period of perhaps three years. Originally, we had intended to bring forward a revised strategy by March 2008, but we feel that there is a need for further discussion with elected Members and the business community, in particular, in order to ensure that any such strategy is as robust and relevant as possible.

2.0 Links to Council Priorities

- 2.1 Marketing is a specific section in the Corporate Plan where it is stated that we will “establish and implement, with our partners, a marketing strategy for Shetland that will focus on encouraging the development of products and services of high quality that can be promoted with confidence to appropriate markets”.

3.0 Proposal

- 3.1 In order to lay a secure foundation for marketing activity as an integral part of business and community development, we consider it essential to discuss the way forward with a range of interests in Shetland. Before doing so, however, we wish to review progress to date and sketch out possible ways forward with elected Members so that they can have a full picture of the work that we have been doing and can share in discussion about the challenges and opportunities that lie ahead.
- 3.2 Accordingly, we wish to suggest that a workshop for elected Members be held after the summer recess. The date proposed is Monday 25 August and we would expect the workshop to begin at 1030am and finish after a sandwich lunch at approximately 2pm. The workshop would include presentations on work completed or in hand and discussion groups aimed at sketching out priorities for future action. We would then wish to consult with business and other interests before bringing back a fully-developed marketing strategy for consideration by the Committee.

4.0 Financial Implications

- 4.1 The cost of the proposed workshop will be accommodated within existing budgets and there are no direct financial implications arising from this report.

5.0 Policy and Delegated Authority

- 5.1 This report has been written based on Economic Development Policy Number 25 “ Enable individuals and businesses to develop and promote Shetland products and services with confidence and pride” (Development Committee Minute Reference 01/08, SIC Minute Reference 55/08).
- 5.2 The Development Committee has delegated authority to implement decisions within its remit for which the overall objectives have been approved by the Council, in addition to appropriate budget provision including:
- Economic Strategy
 - Europe

As the subject of this report is covered by existing policy the Committee has delegated authority to make a decision.

6.0 Conclusion

- 6.1 There has been worthwhile progress in marketing Shetland over the last year or so. It is time to review the work that has been done and begin to establish a strategy to guide marketing activity in the years ahead.

7.0 Recommendation

- 7.1 I recommend that the Development Committee agrees:
- 7.1.1 To participate in a marketing workshop on Monday 25 August 2008, as outlined above;
 - 7.1.2 To instruct the Marketing Service thereafter to consult with business and other relevant interests in order to prepare a draft marketing strategy for consideration at a subsequent meeting of this Committee.

Our Ref: AH/KLM
Date: 28 May 2008

Report No: DV023-F



REPORT

To: Development Committee – 5 June 2008

From: Assistant Chief Executive

Sullom Voe Strategic Plan CE-24-F

1. Introduction

- 1.1 This report follows the discussion and decision at the meeting of Shetland Islands Council on 14 May 2008. This report advises Members of the objectives of the project team, the range of skills required to carry out the project and seeks authority to buy in specific pieces of work where the expertise is outwith that of the Council.

2. Links with the Corporate Plan

- 2.1 Sustainable economic development through economic diversification is one of the priorities contained in the Corporate Plan. The impact of the declining throughput of oil at Sullom Voe Terminal and the potential diversification of the terminal and its surrounding area is a key ingredient in securing a future sustainable economy in Shetland.

3. Background

- 3.1 On 28 March 2007 the Council approved a tendering process study into future opportunities for the port of Sullom Voe. The tendering exercise was not entirely successful and the work was split into two distinct parts.
- 3.2 The specialist hydrocarbons work relating to the future of the oil terminal was awarded to Professor Kemp of Aberdeen University which will be presented to a forthcoming meeting of the Harbour Board at the end of the Summer.
- 3.3 The more general research looking into diversification opportunities was also tendered but the Council decided not to proceed with this and instead instructed the Chief Executive to make arrangements for an in-house team to take this forward.

- 3.4 The Council meeting on 14 May decided that this should proceed and that I should report back with objectives and a time-scale. It was further suggested at the meeting that Councillors Alastair Cooper and Jonathan Wills be part of the in-house project team given their background knowledge and expertise in the area.

4. Proposals

- 4.1 The main objectives for the study are as follows:-
- Identify the opportunities for use of the port taking account of Shetland's other ports;
 - To identify the economic benefits of these potential opportunities;
 - To identify any constraints to uses of, or development of the port and potential to mitigate these, taking account of the assets of the port at Sullom Voe;
 - To provide an indication of any required improvements to existing facilities or for new infrastructure, or free port status;
 - To provide rough costings for these and any sources of likely funding;
 - Consider the timescale for delivery of any identified opportunities and any necessary partners;
 - To set out how the port could be marketed and the opportunities delivered.
- 4.2 The last bullet point is crucial in that any future developments have to be market-led with a clear indication of the potential demand in order to justify decisions on investment.
- 4.3 I aim to draw on support from a range of interests across the Council including Economic Development, Planning, Environment and Port Operations. There may be considerations from a range of other areas including financial and legal which will be drawn on as required.
- 4.4 In light of the first bullet point which refers to Shetland's other ports, these will include Scalloway and Lerwick Harbour. I would therefore, propose to invite a representative from Lerwick Port Authority (LPA) to be part of the team given that this is a strategic look at Sullom Voe and the benefits that Shetland as a whole might accrue.
- 4.5 There may be particular areas where specialist advice will be required. I would hope that this can be contained within the current level of delegated authority which is up to £25,000 but should there be an indication that this figure might be exceeded I will report further and seek authority at that time.
- 4.6 There will be a progress report at the end of the summer and, it is hoped, a conclusion by the end of the year.

5. Financial Implications

- 5.1 The initial segment of the Sullom Voe Strategic Plan has already been carried out and the cost of this work has been coded to RRD15001760. This code is already heavily committed. Should further sums be required for this project, monies can be vired from the Economic Infrastructure Projects budget, however I will report to advise Members of this.

6. Policy and Delegated Authority

- 6.1 The Development Committee has authority to make decisions in this area which is in line with the existing Council priority for economic diversification.

7. Conclusion

- 7.1 The work provided at the Sullom Voe Oil Terminal and the port of Sullom Voe is an essential part of the Shetland economy. Preparing for the future decline of oil throughput and potential other uses of the terminal and port are essential for long-term sustainable economic development for Shetland.

8. Recommendations

- 8.1 I recommend that the Development Committee:-
- a) approves the objectives set out at section 4.1;
 - b) notes that Professor Alec Kemp will be presenting his report to a meeting of the Harbour Board towards the end of this Summer;
 - c) notes the range of skills required and approves an approach being made to LPA for their support; and
 - d) notes that the intention is to report back to Development Committee with a progress report at the end of the summer with an indicative time-scale of concluding the study by the end of this year.

WES/IS
CE-24-F

28/05/08

Shetland Islands Council



BEST PRACTICE GUIDELINES -

FORUMS

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Appendix 1 Remits and Memberships

Constitution

The Council shall establish the following Forums:

- Infrastructure and Environment Forum
- Community Services Forum

In addition, the Council shall establish the following Industry Panels, which will operate in the same way as Forums:

- Fisheries
- Agriculture
- General Industries
- Tourism and Culture

The Council may appoint such other Forums or Industry Panels as they may from time to time consider are required and in so doing shall specify the terms of reference of any such Forum or Panel.

Each Forum shall have, appointed by the Council, a core of Council Members, which must include the Vice-Chairperson of the relevant service Committee, who will be responsible for agenda-setting and for chairing meetings of the Forum, and its Spokespersons.

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General Functions

The role of Forums is to initiate and develop proposals for policy formulation and to keep policies, within their remit, under review. The work of Forums should encourage cross-departmental working and promote innovative thinking, partnerships and public consultation. In particular, Forums must establish a framework for consultation through Council established Advisory Panels and participation in external consultative mechanisms e.g. Community Councils, stakeholder groups or groupings.

Forums will be required from time to time to develop proposed policy submitted to them by either a Committee or by the Council.

All policy proposals will be presented to the appropriate sponsoring Committee by report and supported by the Spokesperson. Subject to adoption of the initiatives by the Committee, the Forum's responsibility is then to implement the Council's consultation strategy ensuring maximum community participation in proposals which fall within the remit of the Forum.

Forums may conduct detailed examination of proposals in the taking of evidence, commissions, etc. from all interested parties.

Membership

All participants in Forum meetings (Members, officers, stakeholders and invitees) should be reassured of their equality of status and be encouraged to take part in the discussion. It is the responsibility of the Chairperson to ensure parity of esteem, and that the value of contributor is recognised.

Each Forum shall have, appointed by the Council, a core of Council Members, which must include the Vice-Chairperson of the relevant service Committee, who will be responsible for agenda-setting and for chairing meetings of the Forum, and its Spokespersons.

The key participating Services of the Council will also be identified and will be obliged to secure officer attendance at all meetings where the business requires officer input within their fields of expertise. Each Forum will identify a lead Service Head who will be responsible for facilitating the effective operation of the Forum.

Any person may be invited especially to attend a meeting of the Forum as a stakeholder, service user or adviser. The Head of Legal and Administration must be advised of all those invited to attend.

All Councillors are entitled to attend meetings of the Forums, and if not a core Member, may participate at the discretion of the Forum Chairperson.

Approved Duty/Payment of Expenses

Forums are appointed by Shetland Islands Council and the Spokesperson and other Member appointments are made by the Council. The Forum is expected to act as a key component in the Council's drive to ensure full community involvement in the affairs of the Council and as such the Council has ascribed approved duty status to the participation of individual Members in the work of the Forum. Expenses incurred by Members attending for the business of the Forum shall be met by the Authority under the statutory Regulations for payment of Members' expenses and allowances.

The application of approved duty status for Elected Members, applies only to Elected Members. The Council cannot reimburse any claims for expenses from other invited persons.

SIC Staff - Attendance as Stakeholders: Code of Conduct

SIC staff may attend Forum meetings as representatives of other organisations. In such instances, those persons should be aware of any

information they may only have gleaned in their position as a member of staff, and have due regard to the SIC Employee Code of Conduct.

- Staff shall be allowed time off from their duties without loss of pay or holiday entitlement to attend Forum meetings as representatives of organisations other than the SIC.

Conduct of Meetings

Public Notice

Forums are intended to operate in as open a manner as possible, recognising any codes of confidentiality imposed on the Council and access to information constraints. In general, therefore, the business of the Forum will be conducted in public, and notice of meetings will be posted, and copies provided to the media. Only, in the event where the subject requires the matter to be considered in private, should the Forum resolve to exclude the public and in no circumstances should that be in cases other than those described under the Access to Information requirements which govern the affairs of the Council's formal Committees.

Formal meetings of Forums shall be called by the Head of Legal and Administration, in accordance with the schedule of meetings established by the Council. At least 14 calendar days public notice of the agenda items should be given.

Agendas

- Agendas for all meetings shall be agreed in consultation with the Forum Chairperson, Spokespersons, and Lead Officer before being issued by the Head of Legal and Administration. If necessary, the Committee Chairperson shall act as arbiter in cases of disagreement.
- Agendas shall be issued upon receipt of the final reports and circulated to all Core Members, Elected Members, Service Heads and the media.
- All agendas will include an item "Issues for Future Discussion". This will allow the Forum to highlight any issues which should be brought forward to a future meeting. Such issues may be raised with or without supporting papers, and a brief discussion should be embarked upon to ensure that the topic is the legitimate business of the Forum and to decide on information to be presented to the next meeting.

Joint Meetings

Chairpersons, , Lead Officers and Committee Chairman may agree to hold a joint Forum meeting where certain issues are within the remit of more than one Forum. In such cases, an agreement on chairmanship shall be reached

between the Chairpersons and the Committee Chairman/Chairmen, but shall be otherwise be conducted in accordance with these guidelines.

Cancellation of Meetings

The Lead Officer shall advise the Head of Legal and Administrative Services of the decision to cancel a Forum meeting. At least **2 calendar weeks notice** in advance of the scheduled meeting date should be given in order that the Head of Legal and Administrative Services may issue a cancellation notice timeously. Lead Officers and Chairpersons should ensure that no business is forthcoming from Stakeholders before agreeing to cancel a scheduled meeting. Cancellation notices should contain an explanation, provided by the Lead Officer, as to what work is being undertaken in the meantime.

Discussion Papers

All items for discussion at a Forum meeting (except items for future discussion) should be accompanied by a discussion paper, and any relevant background material. Presentations should be used wherever possible.

Authors of papers for meetings shall ensure that appropriate advice from the Council's Proper Officers has been sought prior to discussion – i.e. the content should include, or take account of, the necessary technical, professional, legal, financial, etc. advice.

Stakeholders wishing to present a matter to the Forum should forward their papers to the appropriate Lead Officer, who will present the paper with a discussion paper, as referred to in the previous paragraphs. In some cases, such matters may be referred to "items for future discussion" only, and no covering discussion paper needs to be prepared.

All papers to Forums prepared by Officers shall begin with a statement confirming the purpose of referring the matter to the Forum by reference to the Forum's remit and any Council policies which apply. The emphasis on this policy consultation role should be highlighted by the inclusion of questions for debate, rather than recommendations.

Timing and Venue

Forum meetings shall be held in accordance with the schedule of meetings produced by the Head of Legal and Administration. However, the Lead Officer, in consultation with the Chairperson, and taking account of the views of the Forum, has delegated authority to alter the timing and venue of Forum meetings.

Forum meetings may be held at any location and time to suit its work. The Lead Officer shall liaise with the Head of Legal and Administration with regard to venue bookings, arrangements and servicing.

Chairperson

All Forum meetings shall be chaired by the Chairperson responsible for the Forum.

The Chairperson may delegate this role to a Spokesperson for the purpose of the meeting.

In the absence of the Chairperson, the Forum shall appoint an Interim Chairperson from amongst those Members present.

Quorum

Forum meetings shall require a quorum of at least two Core Elected Members.

The Quorum for joint Forum meetings shall be the same as if the Forum was not joint.

Discussion/Participation

- Chairpersons should try to achieve a consensus at meetings. In all cases, both sides of an argument will be recorded. Generally, therefore, no votes will be taken, except on the appointment of Core Stakeholders.
- If a consensus cannot be reached, the Chairperson should determine the process to follow and outcome of debate with a show of hands if necessary.

Publicity

- Where the Forum feels it is appropriate, the Chairperson, Spokespersons and Lead Officer should meet directly after the meeting to put together a short press release on the discussion.
- The Notes of meetings, having been confirmed for accuracy by the Chairperson and Lead Officer, shall include details on action required, and shall be circulated to all Core Members of the relevant Forum, any Invitees, all Service Heads and a copy placed in the Members' Room.

END
May 2008



REPORT

To: Development Committee
Infrastructure Committee
Services Committee

5 June 2008
10 June 2008
12 June 2008

From: Head of Legal and Administration

Forums and Industry Panels – Remits and Membership Report No. LA-29-F

1.0 Introduction

- 1.1 The Council, at its meeting on 14 May 2008 (Min. Ref. 66/08), agreed to adopt an amended Committee structure which saw the introduction of Forums and Industry Panels relating to specific functional areas.
- 1.2 The purpose of this report is to present the proposed remits and memberships of the Forums and Industry Panels for consideration, and subsequent approval as part of the Scheme of Delegation which will be presented to the Council on 25 June.
- 1.3 In addition, the Committee is asked to approve the terms of the Best Practice Guidelines for the operation of Forums and Advisory Panels.

2.0 Link to Corporate Priorities

- 2.1 The framework within which Council business will be carried out contributes to the aim of developing the Corporate aim of achieving a Council that is organised, efficiently run and sustainable.

3.0 Proposals

- 3.1 Extracts from the Council's Scheme of Delegations are attached. Following consideration by the Committees, the entire Scheme will be submitted to the Council meeting on 25 June.

- 3.2 The Development Committee is asked to approve the terms of Appendix 1 in terms of the role and remits of the Industry Panels. The Committee is further asked to recommend core membership, and Lead Officer, to be appointed at the Council meeting on 25 June.
- 3.3 The Services Committee is asked to approve the terms of Appendix 2 in terms of the role and remit of the Community Services Forum. The Committee is further asked to recommend the core membership, and Lead Officer, to be appointed at the Council meeting on 25 June.
- 3.4 The Infrastructure Committee is asked to approve the terms of Appendix 3 in terms of the role and remits of the Infrastructure and Environment Forum. The Committee is further asked to recommend the core membership, and Lead Officer, to be appointed at the Council meeting on 25 June.
- 3.5 Committees are asked to note that stakeholder or industry group representation will be invited to attend meetings, dependent upon the matters under discussion. The list of invitees will be agreed between the Chairperson and the Lead Officer.
- 3.6 In addition, Committees are asked to consider and agree the Best Practice Guidelines, attached as Appendix 4.

4.0 Financial Implications

- 4.1 There are no financial implications arising from the terms of this report.

5.0 Policy and Delegated Authority

- 5.1 In accordance with the current Scheme of Delegations, only the Council shall specify the terms of reference and delegations of any Committee or Forum. Therefore a decision of the Council is required, following consideration by the relevant Committees.

6.0 Recommendation

- 6.1 I recommend that the Committees consider the proposals contained in Section 3 above. Any recommendations will be contained in a report on the updated Scheme of Delegations and presented to the Council on 25 June 2008.

27 May 2008
AC

21.0 INDUSTRY PANELS

Role

The role of the Industry Panels, similar to Forums, is to initiate and develop proposals for policy formulation and to keep policies, within their remit, under review. The work of the Panels should encourage cross-departmental working and promote innovative thinking, partnerships and public consultation. In particular, the Panels must establish a framework for consultation and participation in external consultative mechanisms e.g. Community Councils, stakeholder groups or groupings.

Panels will be required from time to time to develop proposed policy submitted to them by either a Committee or by the Council.

All policy proposals will be presented to the appropriate Committee by report and supported by the Spokesperson. Subject to adoption of the initiatives by the Committee, the Panel's responsibility is then to implement the Council's consultation strategy ensuring maximum community participation in proposals which fall within the remit of the Forum.

Panels may conduct detailed examination of proposals in the taking of evidence, commissions, etc. from all interested parties.

To initiate and develop proposals for policy formulation or change, and to keep policies and the implementation of those policies within the remit of the Panel under review.

To support the work of Members who represent the Council on external organisations

To provide advice to the Development Committee and the Council on any matter which falls within the remit of the Panel.

The Panels may consider any matter appearing to fall within their remit if referred to it by any Panel Member including external stakeholders or members of the public, the Council, Committees, Executive Directors or the Chief Executive. Any items to be put on the Panel agendas will be discussed with the Head of Economic Development and Chairperson of the Panel.

Panel meetings may be held at any location and time to suit its work.

The Panels will report in each cycle of Council business by submission of its minutes and reports to the Council's Development Committee.

Remit

Fisheries

To provide a mechanism for facilitating discussion, consultation and understanding of all matters relating to fisheries related themes and issues affecting Shetland.

General Industry

To provide a mechanism for facilitating discussion, consultation and understanding of all matters relating to general industry related themes and issues affecting Shetland.

Tourism and Culture

To provide a mechanism for facilitating discussion, consultation and understanding of all matters relating to tourism and cultural related themes and issues affecting Shetland.

Agriculture

To provide a mechanism for facilitating discussion, consultation and understanding of all matters relating to agricultural related themes and issues affecting Shetland.

Delegation of Authority

The Panels may consider draft policy and make recommendations on any matter that falls within their remit.

The only decisions that a Panel may make are:

- a decision to recommend a particular course of action to Committee or Council
- a decision to invite individuals or organisations to attend the Panel for a particular item of business in order to hear views or seek expert advice.

Core Membership:

Vice-Chairperson, Development Committee [Chairperson]
Chairperson, Development Committee
European Spokesperson

Lead Officer:

Head of Economic Development

19.0 COMMUNITY SERVICES FORUM

Role

The role of Forums is to initiate and develop proposals for policy formulation and to keep policies, within their remit, under review. The work of Forums should encourage cross-departmental working and promote innovative thinking, partnerships and public consultation. In particular, Forums must establish a framework for consultation and participation in external consultative mechanisms e.g. Community Councils, stakeholder groups or groupings.

Forums will be required from time to time to develop proposed policy submitted to them by either a Committee or by the Council.

All policy proposals will be presented to the appropriate Committee by report and supported by the Spokesperson. Subject to adoption of the initiatives by the Committee, the Forum's responsibility is then to implement the Council's consultation strategy ensuring maximum community participation in proposals which fall within the remit of the Forum.

Forums may conduct detailed examination of proposals in the taking of evidence, commissions, etc. from all interested parties.

To initiate and develop proposals for policy formulation or change, and to keep policies and the implementation of those policies within the remit of the Forum under review.

To support the work of Members who represent the Council on external organisations.

To provide advice to the Services Committee on any policy matter which falls within the remit of the Forum.

The Forum may consider any matter appearing to fall within its remit if referred to it by any Forum Member including external stakeholders or members of the public, the Council, Committees, Executive Directors or the Chief Executive. Any items to be put on the Community Services Forum agenda will be discussed with the Executive Director and Chairperson of the Community Services Forum.

The Forum meetings may be held at any location and time to suit its work.

The Forum will report in each cycle of Council business by submission of its minutes and reports to the Council's Services Committee.

Remit

To ensure that the Council facilitates and understands stakeholders' views on matters relating to services for children and young people, community care, criminal justice, education, leisure and housing services. The Forum will provide

recommendations to the Services Committee on policy matters pertaining to these areas.

For the purpose of this Forum, children and young people shall be considered to be anyone under the age of 25 years in need of care or assistance from the local authority and/or partner agencies involved in delivery of children's and young people's services.

For the purpose of this Forum, community care shall be considered to include any area of services to client groups coming under the Community Care plan agreed by NHS Shetland and the Council as defined by government guidelines.

Delegation of Authority

The Forum may consider draft policy and make recommendations on any matter that falls within the Forum remit.

The only decisions that a Forum may make are:

- a decision to recommend a particular course of action to Committee or Council
- a decision to invite individuals or organisations to attend the Forum for a particular item of business in order to hear views or seek expert advice.

Core Membership:

Vice-Chairperson, Services Committee [Chairperson]
Chairperson, Services Committee
Education, Children and Young People's Spokespersons (2)
Housing Spokesperson
Community Care Spokesperson
Culture and Recreation Spokesperson

Lead Officer:

Executive Director, Education and Social Work

20.0 INFRASTRUCTURE AND ENVIRONMENT FORUM

Role

The role of Forums is to initiate and develop proposals for policy formulation and to keep policies, within their remit, under review. The work of Forums should encourage cross-departmental working and promote innovative thinking, partnerships and public consultation. In particular, Forums must establish a framework for consultation and participation in external consultative mechanisms e.g. Community Councils, stakeholder groups or groupings.

Forums will be required from time to time to develop proposed policy submitted to them by either a Committee or by the Council.

All policy proposals will be presented to the appropriate Committee by report and supported by the Spokesperson. Subject to adoption of the initiatives by the Committee, the Forum's responsibility is then to implement the Council's consultation strategy ensuring maximum community participation in proposals which fall within the remit of the Forum.

Forums may conduct detailed examination of proposals in the taking of evidence, commissions, etc. from all interested parties.

To initiate and develop proposals for policy formulation or change, and to keep policies and the implementation of those policies within the remit of the Forum under review.

To support the work of Members who represent the Council on external organisations

To provide advice to the Infrastructure Committee and the Council on any matter which falls within the remit of the Forum.

The Forum may consider any matter appearing to fall within its remit if referred to it by any Forum Member including external stakeholders or members of the public, the Council, Committees, Executive Directors or the Chief Executive. Any items to be put on the Infrastructure and Environment Forum agenda will be discussed with the Executive Director and Chairperson of the Forum.

The Forum meetings may be held at any location and time to suit its work.

The Forum will report in each cycle of Council business by submission of its minutes and reports to the Council's Services Committee.

Remit

To ensure that the Council facilitates and understands stakeholders' views on matters relating to roads, planning, environment, public protection and health. The

Forum will provide recommendations to the Infrastructure Committee on policy matters pertaining to these areas.

Delegation of Authority

The Forum may consider draft policy and make recommendations on any matter that falls within the Forum remit.

The only decisions that a Forum may make are:

- a decision to recommend a particular course of action to Committee or Council
- a decision to invite individuals or organisations to attend the Forum for a particular item of business in order to hear views or seek expert advice.

Core Membership:

Vice-Chairperson, Infrastructure Committee [Chairperson]
Chairperson, Infrastructure Committee
Environment and Public Health Spokesperson

Lead Officer:

Executive Director, Infrastructure Services



REPORT

To: Development Committee

05 June 2008

From: Area Economic Development /Tourism Officer

DV015-F
COUNCIL REPRESENTATION ON THE SHETLAND TOURISM ASSOCIATION
AND THE GEOPARK SHETLAND LIAISON GROUP

1.0 Introduction

- 1.1 This report refers to separate requests from the Shetland Tourism Association (STA) and Shetland Amenity Trust (SAT) for representation of Councillors on external bodies. The STA is seeking representation from one Councillor on the Executive Committee of the STA while the SAT is seeking representation from one Councillor on the Geopark Shetland Liaison Group (GSLG). Both organisations have requested that the nominated Councillor has a particular interest in tourism and, in the case of Shetland Amenity Trust, an additional interest in geology.

2.0 Links with Corporate Plan

- 2.1 This report has strong links with Council 2008-2011 Corporate Plan Policy to promote an economy where traditional industries thrive and in particular to promote Shetland as a tourist destination. It will also directly assist the Council towards achieving its stated commitment under Culture, Recreation and Community Development, to support Shetland Geopark status.

3.0 Background

Shetland Tourism Association

- 3.1 In 2005 when local Tourist Boards including Shetland Islands Tourism were dissolved by act of parliament and amalgamated into one Scotland wide Board named "VisitScotland" tourist providers in Shetland were left with no specific body to represent them. To fill this gap two new membership based trade associations were formed:

- The Hotels of Shetland Association, which represents the specific interests of Hotels in Shetland: and
- The Shetland Tourism Association (STA), which was constituted to represent all those involved in tourism related activity throughout Shetland

Geopark Shetland Liaison Group

- 3.2 The formation of a Geopark Shetland Liaison Group (GSLG) has been proposed as part of Shetland's application to become a member of the European Geopark Network (EGN). The Council's Executive Committee endorsed the community aspiration for Shetland to become a member of the Network in Nov 2005 [Min ref 42/05]
- 3.3 A European Geopark is "A territory, which has a special and rich geological heritage, both from a national and European perspective, and a strategy for using geology as a driver for economic development". The EGN currently has 32 members, in 14 countries.
- 3.4 In December 2006 Shetland Amenity Trust submitted an application on the understanding that it was unlikely to succeed first time but that the EGN Coordination Committee would give constructive feedback on how Shetland could meet the exacting standards set for new members. Feedback from this initial application was received in May 2007 and included the requirement to demonstrate long-term financial sustainability and a strong management structure.
- 3.5 Shetland is unusual in that, unlike many areas that have to set up a funding and management structure from scratch, we have a well-established Amenity Trust committed to the development and promotion of Shetland's natural and cultural heritage, including its geological heritage. The Challenge for Shetland is to explain to members of the EGN, how Geopark Shetland can maintain its distinct identity within the existing Shetland Amenity Trust funding and management structure.
- 3.6 In January 2008 the Council approved a grant to Shetland Amenity Trust of £115,656, over a three period, towards the costs associated with the targeted development and promotion of Shetland's geological heritage [Min ref 02/08]. This funding will contribute to demonstrating Geopark Shetland's financial sustainability.
- 3.7 To contribute to demonstrating a strong management structure it is proposed that the GSLG will have a specific remit to support Shetland Geopark and contribute to all strategic discussions relating to Geopark Shetland related activities.
- 3.8 Shetland Amenity Trust will be resubmitting its application to become a member of the European Geopark network in June 2008 and the results will be announced in September 2008.

4.0 Proposals

- 4.1 It is proposed that the Development Committee nominate a Member to represent the Council on the Shetland Tourism Association's Executive Committee and another Member to represent the Council on the Geopark Shetland Liaison Group. Information on the composition and remit of the STA and the GSLG are attached as Appendix 1.

5.0 Financial Implications

- 5.1 Attendance by Councillors appointed to the Shetland Tourism Association and the Geopark Shetland Liaison Group would carry approved duty status in terms of the Council's Scheme of Approved Duties, and as such the Member's costs would be met from the Members' budget.

6.0 Policy and Delegated Authority

- 6.1 This report has been prepared under Economic Development Policy number 5 "Continue to develop Shetland as a tourist destination through development of high quality products and services " which was approved by the Development Committee on 24 April 2008 (Min Ref 01/08) and by the Council on 14 May 2008 (Min Ref 55/08)
- 6.2 The Development Committee has delegated authority to implement decisions within its remit for which the overall objective have been approved by the Council, in addition to appropriate budget provision. However, the appointment of Members to external organisations has not been delegated to any Committee, and therefore a decision of the Council is required.

7.0 Conclusion

- 7.1 Members of the Shetland Tourism Association consider that there would be real benefit in having a Councillor on their Executive Committee. He or she could represent the views of the Council in all STA member discussions and champion the views of the local tourism industry in discussions with other Councillors.
- 7.2 Shetland Amenity Trust are requesting that an elected Councillor becomes a member of the Geopark Shetland Liaison Group: as a clear demonstration to the European Geopark Network of the local authority's commitment to the aims of Geopark Shetland: and, to contribute to strategic discussions relating to all Geopark Shetland related activities.

8.0 Recommendations

- 8.1 I recommend that the Development Committee:

- 8.1.1 nominate a Councillor onto the Shetland Tourism Association who has an interest in tourism;
- 8.1.2 nominate a Councillor onto the Geopark Shetland Liaison Group who has an interest in tourism and geology; and
- 8.1.3 that these nominations be recommended to the Council for approval.

Our Ref: LC/KS/RF1108
Date: 28 May 2008

Report No: DV015-F

Shetland Tourism Association

The STA currently has 80 members and 16 elected Committee members representing geographic areas and specific sectors ie Lerwick and Bressay, South Mainland & Fair Isle, West Mainland, Foula and Papa Stour, North Mainland, North Isles, East Mainland Whalsay & Skerries, Guest Houses/ Bed & Breakfast, Crafts and Retail, Visitor Attractions, Food and Drink, Hotels, Self Catering, Sport and Leisure, Tour Operators, Voluntary Sector and Transport.

The Association meets monthly from September to May to discuss issues related to Shetland's tourism industry and provides a key point of contact for any strategic partnerships where the view of the local tourism industry is being sought.

The nominated Councillor would be a member of the Executive Committee of the Association with full voting rights.

The period of appointment will terminate on the date of the next Ordinary Election of Councillors.

Geopark Shetland Liaison Group

The GSLG will have a specific remit to support Shetland Geopark and will consist of representatives from a range of statutory bodies, agencies, and local groups including Shetland Amenity Trust, SIC Economic Development and Infrastructure Services, Scottish Natural Heritage, Highlands and Island's Enterprise, VisitShetland, Association of Community Councils, a Specialist Geology Advisor, an Education representative and Shetland Tourism Association (representing tourism operators)

GSLG will meet a minimum of 4 times a year and provide support and advice to Shetland's Geopark Officer and other specialist Trust staff in all activities related to promoting Shetland's rich geological heritage to the public and using geology and other aspects of natural and cultural heritage to promote sustainable economic development.

The nominated Councillor would be a member of this Group.

The period of appointment will terminate on the date of the next Ordinary Election of Councillors.



REPORT

To: Development Committee

05 June 2008

From: Interim Head of Economic Development

REPORT NO: DV030-F

Transfer of Shetland Development Trust (SDT) Assets, and Staff Restructuring

1.0 Introduction

- 1.1 The purpose of this report is to update Members on progress and plans regarding the transfer of SDT staff and assets to the SIC, and request specific authority where required for these transfers.

2.0 Links to Corporate Plan

- 2.1 This report links to the Council's Corporate Plan 2008-2011 which sets out a range of priorities to more effectively and efficiently organise the Council's business.

3.0 Background

- 3.1 At its meeting on 19 March 2008, the Council agreed to the establishment of a Development Committee comprising all 22 elected Members to deal with matters related to economic development, and the transfer of the activities and undertakings of the SDT to the Council. (SIC Min Ref. 50/08).
- 3.2 On 14 May 2008 the Council agreed to become sole Trustee of the SDT and to delegate the management of the SDT to the Development Committee (SIC Min Ref 67/08).
- 3.3 These arrangements were agreed by the SDT at its meeting on 14 May and formalised in the Fifth Supplemental Deed of the SDT.
- 3.4 The above decisions have the effect of putting the SDT into a run down mode.

4.0 Transfer of SDT staff, and Economic Development Staff structure

- 4.1 A staff structure for the new combined SIC Economic Development Service is being developed, along with new or revised Job profiles and person specifications where required. This is being carried out, in consultation with both SIC and SDT staff.
- 4.2 The 5 SDT staff will be transferred to the SIC and protected under TUPE which will preserve the existing pay, terms and conditions for these staff. SDT is already an admitted body within the Local Government Pension Scheme. There will then be a total pool of 20 staff from which the new structure will be populated.
- 4.3 Discussions on the proposed new structure is ongoing with staff and SIC Human Resources, and any changes including the impact of single status implementation will be dealt with in line with existing Council policies and procedures.
- 4.4 The post of 'Head of Economic Development' will be dealt with by the Chief Executive in a report to Council.
- 4.5 A formal process of consultation with staff and the unions will be carried out and a report will be submitted to the Employees JCC on 12 August 2008 setting out the proposed new structure.
- 4.6 Target dates for transfers and restructuring are laid out in Table 1 below:

Table 1

Task	Timescale
Consult staff on transfer and staff structure	ongoing
Consult Employee JCC	12 August 2008
TUPE Transfer of SDT staff to SIC	01 September 2008
Match/Recruit staff to new structure	01 September 2008
Transfer Managed funds to SIC	01 September 2008
Transfer Quota to SIC	01 September 2008

5.0 Transfer of assets

- 5.1 It is intended that assets held by SDT which are deemed to be 'non-trading' activities and therefore incur tax leakage by the Trust, namely the managed funds and fishing quota, are transferred to the Council at an early stage. Other assets such as loans and equity investments can be managed out by the SDT in a tax efficient manner without incurring legal costs for transfer of titles and securities.
- 5.2 The transferred funds along with incomes from quota will be retained by the SIC, and there will be a corporate arrangement for the remainder of this financial

year, to 31 March 2009, whereby investment decisions made by the Development Committee will be funded from the transferred funds. Thereafter funding for all economic development activities managed by the Development Committee will be managed within the SIC budgetary process.

- 5.3 Members should note that some of the transferred funds would remain unspent at 31 March 2009. The balance of those must continue to be recognised as ring fenced against existing SDT approved commitments at date of transfer. Release of these funds beyond 31 March 2009 would continue under the SIC budgetary process.
- 5.4 Table 2 below identifies the assets currently held by the SDT. Note that SDT policy on amortisation for equity investments, whitefish quota and licences is to write down to £0 over 20 years. Provisions on loans are based on risk ratings.

Table 2 Value of SDT assets as at 01 April 2008

	Gross value	Provisions / Amortisation	Net value
	£'000	£'000	£'000
Property, fixtures & fittings	118	88	30
Licences (fishing vessel)	533	61	472
Equity in local industry	8,100	6,368	1,732
Loans to local industry	14,636	9,035	5,601
Whitefish quota	17,967	6,402	11,565
Managed Funds	7,191		7,191
Debtors	561		561
Cash at bank	2,690		2,690
Creditors	-1,444		-1,444
Net assets	50,352	21,954	28,398
Agriculture loan guarantees	471		471

5.5 Whitefish quota

- 5.4.1 Whitefish quota will be transferred to SIC, target date 01 September 2008. The quota is managed by the Shetland Fish Producers Organisation on behalf of the SDT and it is intended that this arrangement continues. Recent annual income from the quota is in excess of £500,000.

5.5 Managed funds

- 5.5.1 Surplus cash is currently invested in HBOS managed funds and it is planned that these funds will be realised and the cash transferred to SIC Treasury Management. Target date for transfer 01 September 2008.

5.6 Cash at bank

- 5.6.1 Cash at bank will be managed to ensure the SDT has available the funds to honour its ongoing working capital commitments. Surplus cash at bank will be transferred to the SIC at the end of each quarter.

5.7 Loans in local industry

- 5.7.1 The SDT has an active portfolio of over 120 loans totalling approximately £9.5m value. The active portfolio will gradually run down over the next 10 years as loan terms are completed. The balance between the value of active loans and the 'gross value' of loans in Table 2, being £5.1m, is tied up in company receiverships and administrations dating back to 1996 and to which there are unlikely to be further recoveries.
- 5.7.2 Active loan investments will be retained by the SDT for the time being rather than incur costs and resources in transferring the titles and securities to the SIC.

5.8 Equity in local industry

- 5.8.1 Equity investments will be retained by the SDT until exit or further decision, and will be reviewed annually.
- 5.8.2 SDT has a range of equity investments in over 15 businesses and include for example; Burradale wind farm shares, Smyril Line shares, and fishing vessel shareholding.

5.9 Property and Fishing Licences

- 5.9.1 Property and Fishing licences will be retained by the SDT until further decision, and will be reviewed annually.

6.0 Financial Implications

- 6.1 There will be no financial implications for the Council this financial year as the Development Committee will operate within the agreed Economic Development Budget, plus the existing SDT funds.
- 6.2 Whilst the transfer of 5 staff from the SDT to the Council will be cost neutral overall, it will have the effect of increasing the Council staff compliment.
- 6.3 SDT is an admitted body of the Local Government Pension Scheme. Where an admission agreement ceases to have effect, the administering authority requires, as per regulation 77(2) of the Local Government Pension Scheme (Scotland) Regulations 1998 (As amended) to engage the Pension Fund's

actuaries to carry out a cessation valuation where an admitted body winds up. The fee associated with this valuation will be in the region of £5,000. The outcome of this valuation will confirm whether a deficit exists. The Trust Funds will need to meet the actuary fee and any pension fund deficit.

7.0 Policy and Delegated Authority

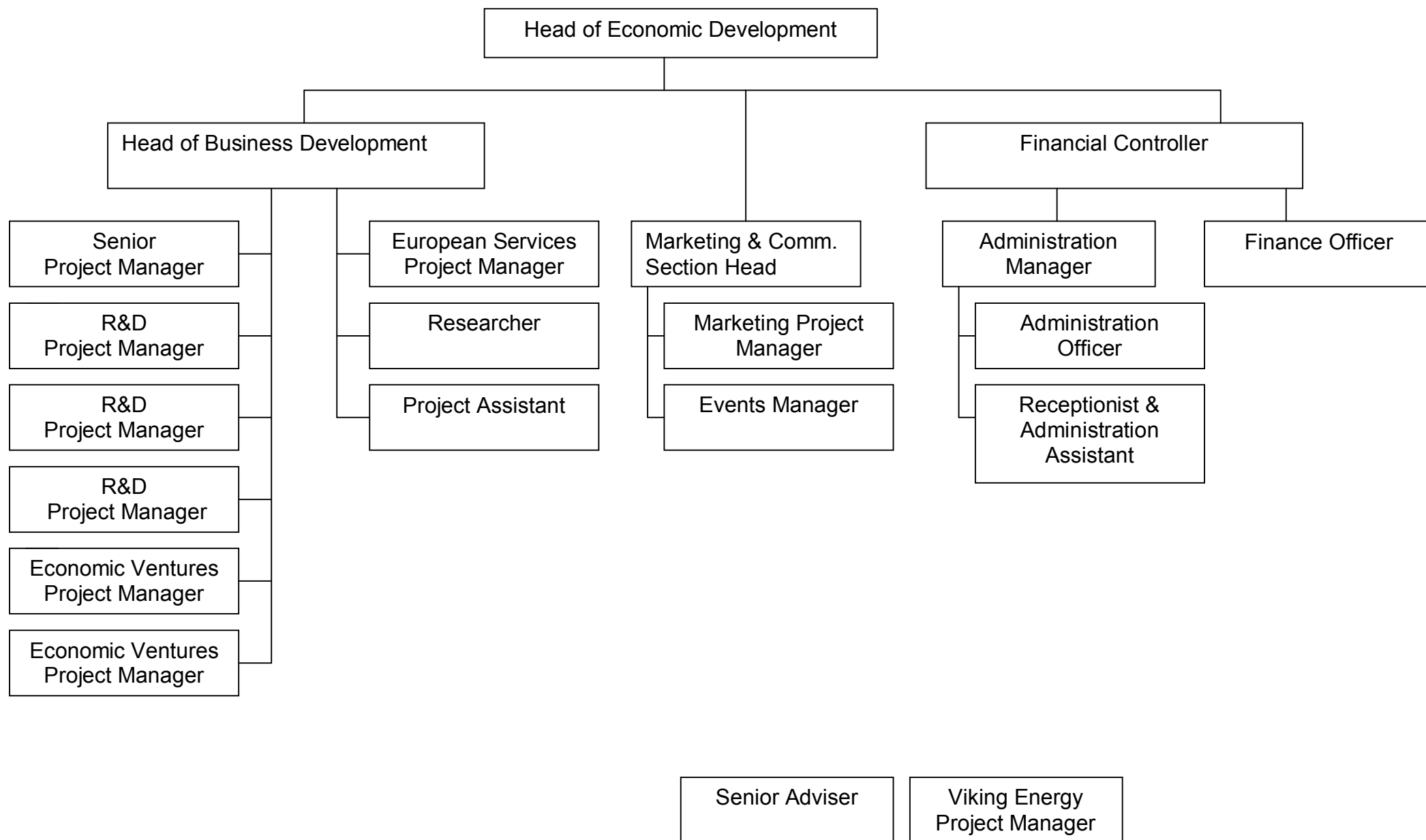
- 7.1 Economic Development issues are referred to the Development Committee. However, as the subject of this report is not covered by existing policy the Development Committee does not have delegated authority to make a decision. Instead the Committee has to make a recommendation to Council.

8.0 Recommendations

- 8.1 The Development Committee is asked to consider the proposals laid out in this report and recommend that the Council:
- 8.2 agree to the plan to transfer SDT staff and staff structure contained in paragraphs 4.1 to 4.7;
- 8.3 agree to the plan of transfer of assets contained in paragraphs 5.1 to 5.9.

Our Ref: NRJG/JJ S6
Date: 30 May 2008

Report No: DV030-F





REPORT

To: Development Committee

5 June 2008

From: Head of Business Development

DV018-F

Grant Assistance Approval through Delegated Authority

1.0 Introduction

- 1.1 This report has been prepared to allow the Development Committee to discuss the levels of delegated authority that can be exercised by the Head of Economic Development and other senior staff in the Economic Development Unit.

2.0 Links to Corporate Plan

- 2.1 The report helps to achieve the Sustainable Economy Action Area of the Corporate Plan by linking economic activity to market needs and by encouraging enterprise and sustainable economic growth."

3.0 Background

- 3.1 For some years arrangements have been approved by the Council to enable the Economic Development Service to process applications for small and medium amounts of grant without having to prepare reports for Committee meetings. The arrangements mean that the approval procedure for eligible projects is more efficient and that the Development Committee can concentrate on more strategic items of business.
- 3.2 Decisions under delegated authority are taken in 2 differing ways. The first is through a system of delegated schemes, which have specific eligibility criteria and are targeted at particular sectors or activities. These schemes are listed below:-

Marketing Development Programme
Tourism Financial Assistance Scheme
Rural Shop Improvement Scheme

Economic Research Assistance Scheme
Fish Factory Improvement Scheme
Shetland Agricultural Business Scheme
Shetland Rural Development Scheme
Agricultural Contractors Scheme
Agricultural Shows Scheme
Pony Breeders Scheme
AI Scheme
Knitting Machines Grant Scheme

- 3.3 The second method is what is termed Discretionary Delegated Authority, which is exercised when an application is received that complies with the Council's Economic Development Policies but which is not eligible for any of the delegated schemes. Under this system the Head of Economic Development can currently approve grants of up to £25,000 and the Head of Business Development can approve grants up to a sum of £5,000. For all grants above the sum of £5,000, the Development Committee Chairperson (or the Vice Chairperson in the absence of the Chairperson) has to be consulted.
- 3.4 It should be noted that any applicant who is refused assistance under any of the methods of delegated authority has the right to request that their case is placed before the Development Committee for a decision.

4.0 Proposal

- 4.1 With a new Development Committee now in place it is appropriate for the systems and levels of delegated authority to be confirmed or altered.
- 4.2 It is therefore proposed that the system of delegated schemes, shown in paragraph 3.2, is continued. An annual report on each scheme will be brought to the Development Committee and any significant change to any of these schemes will also be reported.
- 4.3 In addition the Discretionary Delegated Authority that rests with the Head of Economic Development should be confirmed up to a level of £25,000. This authority can only be exercised in consultation with the Chairperson of the Development Committee or the Vice Chairperson, if the Chairperson is not available. All decisions taken under Discretionary Delegated Authority must comply with the policies listed in the Council's Economic Policy Statement 2007 –2011 (Development Committee Minute Ref: 02/08).
- 4.4 Finally, it is proposed that both the Head of Business Development and the Financial Controller (after the Financial Controller has transferred to the Council from Shetland Development Trust) should be allowed to exercise Discretionary Delegated Authority up to a level of £5,000. Such approvals do not require consultation with the Committee Chairperson. It is considered necessary for two members of staff to exercise delegated authority for smaller projects so that there is always a decision maker in the office at all times.

- 4.5 An update on all approvals made under the delegated schemes and under discretionary delegated authority will be provided at each committee meeting in the Activity Report.

5.0 Financial Implications

- 5.1 There are no direct financial implications arising out of this report.

6.0 Policy and Delegated Authority

- 6.1 The Development Committee has delegated authority to implement decisions within its remit for which the overall objectives have been approved by the Council, in addition to appropriate budget provision, including:

Economic Strategy
Europe

- 6.2 The subject of this report concerns the approval of delegated authority to staff, which is a matter that lies outside the remit of the Development Committee. The Committee has to make a recommendation to the Council to approve the delegated authority.

7.0 Conclusion

- 7.1 Having delegated schemes and discretionary delegated authority in place so that applications can be processed without unnecessary delay enhances the effective delivery of the Economic Development Service.

8.0 Recommendation

- 8.1 I recommend that the Committee recommends to the Council to:

- a) continue the delegated schemes detailed in paragraph 3.2; and,
- b) approve discretionary delegated authority levels of £25,000 for the Head of Economic Development and £5,000 for the Head of Business Development and the Financial Controller in line with the terms specified in paragraph 3.3 and 3.4.

Our Ref: DI/KLM
28 May 2008

DV018-F



REPORT

To: Development Committee

05 June 2008

From: Tourism Officer

DV024-F VISITSCOTLAND MANAGEMENT ARRANGEMENT

1.0 Introduction

- 1.1 For the last 3 years the Council has entered into an annual service level agreement with the local Network office of VisitScotland (VisitShetland) to deliver visitor services for Shetland, with the expectation that this arrangement would continue in the longer term. However, recent changes to the management structure within VisitScotland and their impact on local services and staff have generated enough concern within the industry for a recommendation to be made to Council that this arrangement is reconsidered.
- 1.2 This report has been prepared to describe the nature of these management changes and the negotiations that have been undertaken to minimise any negative impacts they might have. It considers the view of the tourism and culture panel and recommends a preferred course of action for funding Shetland visitor services and destination marketing effort between 1 April 2008 and 31 March 2009 and in the longer term.

2.0 Links with Corporate Plan

- 2.1 This report has strong links with Council Corporate Plan Policies to "Promote Shetland as a tourist destination" and "Further improve Shetland's reputation as a place that offers excellent products and meets the needs of consumers"

3.0 Background

- 3.1 Tourism is one of the sectors in Shetland that is growing steadily and is generally recognised as having the potential for much greater growth. Indicative figures from Shetland's last two visitor surveys show that, between 2000 and 2006, visitor numbers to Shetland

have increased by 37,767, or 57%, and visitor spend has increased by £4.5 million or 38%.

- 3.2 Along with the efforts of individual operators and local organisations in developing and promoting their tourism products, Shetland Islands Council also has a part to play in providing the infrastructure necessary to encourage tourism development and in supporting the marketing of Shetland as a high quality visitor destination.
- 3.3 The powers of local authorities to promote tourism are set out in Section 90 of the Local Government (Scotland) Act 1973, as amended. Essentially the promotion of tourism is seen as a national objective. Local authorities are empowered to promote tourism through a centrally controlled statutory tourist board. For many years, each area of Scotland, including Shetland, had its own tourist board but, in 2006, fourteen local tourist boards were dissolved by act of parliament and amalgamated into one Scotland wide Board named "VisitScotland" (ref Tourist Boards (Scotland) Act 2006).

3.4 Operating As A Network Office Of VisitScotland 2005 - 2008

Shetland approached this new centralised management structure with some trepidation and negotiated for several months before agreeing the terms and conditions under which Shetland Islands Tourism would become a network office of VisitScotland. The need to protect Shetland's ability to promote itself as a distinct destination galvanised the local industry and Council to develop and implement a clear strategy for developing tourism in Shetland and this has been reflected in the targeted outcomes agreed with VisitScotland and funded by Shetland Islands Council.

- 3.5 To protect Shetland's unique identity and ability to promote its distinctiveness under this integrated Scottish management structure, the Council enters, each year, into a carefully crafted service level agreement with VisitScotland to part fund the local office on condition that:

- Shetland maintains control over the local tourism website at www.visitshetland.com and over the design, content and distribution of local tourism promotion material;
- All telephone enquiries requesting Shetland-specific information are transferred to the Shetland office
- Council funding is used for specific services identified in a detailed work programme; and
- Payments relating to a separate local marketing budget are only made on receipt of proof of actual spend on approved marketing activities.

This arrangement has been in operation for a period of three years and has proved to be an effective method of ensuring that local marketing priorities are respected. It has allowed Shetland to buy into marketing opportunities from VisitScotland when they are

appropriate and promote Shetland's own offer when it is different from the Scottish offer or is not a priority for VisitScotland.

3.6 Recent successes include one of the best tourism websites in Europe <http://www.visitshetland.com/>; online foreign language guides in six languages; a Shetland interactive promotional DVD CD ROM which will eventually replace alternative printed material; an SMS text messaging information service, a rural information network developed in partnership with local industry, Britain's most northerly online tourist shop; a pioneering online radio station; an online expert cruising panel answering enquires from yachts people planning a visit to Shetland; and route development with Atlantic Airways resulting in our becoming the only Scottish islands with a direct link to UK capital.

3.7 During this period, with majority funding from Shetland Islands Council, VisitScotland has employed 14 full time and 1 part time member of staff in Shetland. The hard work of the Area Director and his team at VisitShetland, key members of which were employed by the old Shetland Tourist Board and have remained in post throughout the restructuring, has been a major factor in Shetland's high performance.

3.8 VisitScotland's Latest Restructuring

3.8.1 In December 2007, VisitScotland informed its staff that they were to undergo further management restructuring. This would involve abolishing regional control of all VisitScotland activities and introducing 4 new functional directorates: Visitor Engagement, Business Engagement, Strategic Partners and Corporate Services, each of which would be managed remotely from the mainland. No staff were to be made redundant but voluntary redundancy was to be offered to some staff, in particular Area Directors whose role was to be significantly downgraded and would no longer include management responsibility for staff, functions or budgets.

3.8.2 Once again Shetland has entered into detailed negotiations with VisitScotland, which have resulted in some concessions including a new role of Island Manager. However, although the name suggests otherwise, VisitScotland has not met the Council's request that the Shetland Manager should be given management responsibility for staff, functions and budgets. The post is effectively an ambassador for VisitScotland in Shetland ie

"The Island Manager will be VisitScotland's local champion, representing the organisation in all its stakeholder engagement activities. He/She will achieve buy in to VisitScotland's activities in order to maximise support for our activities in relation to growing revenue from tourism" (Ref job description- overview of job purpose).

3.8.3 Neither has VisitScotland agreed to relinquish the domain name “visitsketland.com” into local ownership: a key marketing tool for Shetland, which has been branded, developed and hosted entirely at the Council’s expense.

3.9 The new management structure, as described above, was introduced on 1 April 2008. Shetland Islands Council now has to decide whether it enters into a service level agreement with VisitScotland or whether it considers alternative options for providing visitor services and destination marketing for Shetland.

4.0 Proposals

4.1 This report requests that the Committee considers the pros and cons of three possible options for funding Shetland visitor services and destination marketing and agrees a course of action for funding these services between 1 April 2008 and 31 March 2009 and in the longer term.

4.1.1 Option 1

Accept management changes and sign a Service Level Agreement with VisitScotland to provide Shetland visitor services and marketing

Pros

- The system is in place and requires no additional resource apart from seeking approval from Council to part fund VisitScotland’s activities in Shetland. (Ref 5.1 Option 1 Financial implications)
- The Council can continue to use its service level agreement with VisitScotland to specify what outcomes it requires in exchange for the funding it gives to VisitScotland.
- Shetland’s existing Island Manager and staff are committed to making the system work. At least in the short term, any ill-conceived corporate decisions can be limited through staff cooperation and understanding of local marketing priorities.

Cons

- Shetland Island Council can specify what outcomes it wants for the funding it gives to VisitScotland through its service level agreement but it cannot insist on who VisitScotland employs in Shetland or how they manage their affairs internally.
- If Shetland’s Island Manager leaves, the new incumbent will either be employed at a significantly lower grade and salary or, because the post has been so diminished, an existing employee may be asked to take on the Island Manager role in addition to their existing responsibilities.

- Over time, as existing staff leave, new staff will be employed centrally by VisitScotland (eg interviews for a new Shetland visitor services coordinator post recently took place in Inverness with no local representative on the interview panel)
- As from 1 April 2008, Shetland staff are being managed remotely from four different functional directorates on the mainland of Scotland. Shetland's Island Manager has no management responsibility for staff, functions or budgets.
- Adopting a VisitScotland centralised and corporate approach to marketing Shetland as part of Scotland will make it increasingly difficult for Shetland to promote its own distinct identity and its unique offer to visitors, which is often quite different from other parts of Scotland.

4.1.2 Option 2

Have no Service Level Agreement with VisitScotland and set up a new organisation to provide visitor information and destination marketing services in Shetland

Pros

- Setting up a local service would ensure local control over Shetland's visitor services and marketing effort without interference or manipulation from outside agencies.
- Shetland has an excellent track record in agreeing and progressing local priorities for developing and marketing Shetland as a high quality visitor destination. It also has valuable local expertise that would continue to be used and developed rather than being eroded in favour of centralised management and services, as will be the case under the new VisitScotland management structure.
- Shetland's strategy to prioritise and locally fund Shetland's own marketing agenda over VisitScotland's national marketing agenda has been a proven success and was showcased in a recent presentation to the Convention of the Highlands and Islands ie "Shetland: Making a success of being different". However, regardless of how significant increases in visitors and income are to Shetland, they will only ever have a minimal impact in a national context and, therefore, from a VisitScotland perspective. This option ensures that Shetland is in the driving seat and that local marketing priorities are not ignored in favour of VisitScotland's wider agenda for marketing Scotland.

Cons

- The 2008 visitor season is in progress and VisitScotland staff are operating on the assumption that a service level agreement with the Council will be approved. If this is not the case, it could have an immediate and detrimental impact on

local staff and services, particularly with regards to Shetland's own brand marketing and on-line presence, which are fully funded by Shetland Islands Council.

- It will be significantly more expensive to provide the same services locally as those currently provided under the service level agreement with VisitScotland (Ref 5.2 Option 2 Financial Implications), and: there is no realistic expectation that the Shetland tourism industry will ever generate the level of income required to fund its own Destination Marketing Organisation (DMO ie a Company or other entity involved in the business of increasing tourism to a destination or improving its public image) without significant and ongoing public sector support.
- Any local organisation part funded by the Council must conform to European law and domestic legal requirements (eg State Aid and Local Government (Scotland) Act 1973). Inevitably, agreeing and setting up a suitable structure that best meets local needs and is acceptable under EU and Scottish law, will take time and will have financial implications. Any gap or reduction in service for that period could have an adverse effect on visitors and therefore on Shetland's reputation.
- Not all research, marketing initiatives or services would benefit from being run locally rather than nationally. Having a service level agreement with VisitScotland, for at least some of the services they currently provide, may therefore be of benefit to Shetland.

4.1.3 Option 3

Phase in a new system, which includes a Service Level Agreement with VisitScotland for the services that will benefit from being provided centrally and set up a DMO in Shetland to provide the services that will benefit from being managed and developed locally

Pros

- If this approach is adopted it can be achieved without disruption to the existing service. A service level agreement would be signed with VisitScotland from April 2008 to March 2009 that maintains the status quo and provides the time required to agree and implement a suitable shadow local DMO that can be launched officially early in 2009.
- Activities currently carried out by VisitScotland would only be removed from the service level agreement as and when there was a real benefit in doing so. For example, if Shetland is to have an online presence that is not owned and ultimately controlled by VisitScotland then, at some point, the contents of the visitshetland.com website may have to be transferred to

another locally owned website. However, quality assurance is always likely to be much better managed nationally.

- A considerable amount of local funding is currently given to VisitShetland, local Trusts and associations to promote Shetland to visitors. Setting up a Shetland DMO offers an excellent opportunity to pool the skills and resources of all the local organisations involved in funding and promoting Shetland as a quality destination through its culture and heritage, its creative industries and its products. (eg Charitable Trust, Shetland Islands Council, HIE, Shetland Amenity Trust, Shetland Recreational Trust, Shetland Arts, Shetland Heritage Association, Shetland Tourism Association)
- If a Shetland DMO was developed over a period of time, it could be coordinated “in house” by the Council’s Economic Development Unit, building on existing local partnerships wherever possible and only buying in skills or expertise as required. If this approach is adopted it could be developed with no additional, or a minimum additional, cost to the Council (Ref 5.3 Option 3 Financial Implications).
- In the longer term, if the DMO proved to be a successful model for promoting Shetland as a high quality visitor destination, its remit could be extended to contribute to Shetland’s wider aspirations for branding Shetland by improving its reputation, increasing its visibility and raising confidence among all industry sectors.
- With regard to providing visitor information in the longer term, Shetland has a local information network in visitor attractions throughout Shetland, some of which have the potential to take on an enhanced role. The income that would accrue to those attractions for providing these services would contribute to their running costs and long-term viability. The new Shetland Museum and Archives, which has attracted over 73,000 visitors since it opened in May 2007, also has the capacity to provide local information as part of its core services. The advantage of locally coordinating and enhancing the services and skills of existing tourism providers is that it would result in a better integrated, more cost effective, de-centralised visitor service throughout Shetland.

Cons

- Clarification will need to be sought on the European and domestic legal requirements with regard to setting up and operating a DMO in Shetland that would be part funded by the Council. Any restrictions on how it operates or what it does could impact on its effectiveness and what it can be expected to achieve.

- A remit setting out precisely the role of the DMO would need to be prepared. Agreeing and implementing the best and most productive mechanisms for Shetland to provide local information and destination marketing services will take time.
- Introducing new ways of working and change to existing structures can be challenging and this process will only succeed if all those involved can see the benefits of engaging with the process.

5.0 Financial Implications

- 5.1 Option 1: VisitScotland's operating and marketing costs in Shetland for the current financial year, as detailed in Appendix 1 and 2, are approximately £700,000 per annum, excluding training, human resources and financial services, which are provided centrally. Subject to approval, Shetland Islands Council's contribution to these costs, if Option 1 is chosen, would be £350,000.
- 5.2 Option 2: The cost of carrying out all the functions currently provided under the service level agreement with VisitScotland is estimated at £810,000 per annum. This is made up of the £700,000, identified in Option 1 above, plus £30,000 for training, human resources and financial services, which are currently funded centrally by VisitScotland. The figure also includes an additional £80,000 staff costs because VisitScotland pay scales are significantly lower than the Council and local Trust rates for equivalent posts. Assuming that the current building and all the income from the local industry and sales could be transferred to the new local organisation, this would still leave an estimated £264,000 shortfall in funding, in addition to the £350,000 annual budget identified in Option 1 if VisitScotland provides the same services.
- 5.3 Option 3: The cost to Shetland Islands Council entering into a Service Level Agreement with VisitScotland for 2008-2009, if this option is agreed, would be £330,000. No difference in the services or staff would result from this £20,000 reduction but it would mean that the second version of the Shetland interactive DVD would be delayed until it could be developed under local ownership. It is estimated that the cost of seeking clarification on the European and domestic legal requirements with regard to setting up and operating a DMO in Shetland and researching appropriate local mechanisms for providing visitor information and destination marketing services for Shetland could be up to £20,000.
- 5.5 The sum of £300,000 has been budgeted for under the Reserve Fund heading (RRD1621 2402), Tourism Infrastructure and an additional £50,000 has been budgeted for under the Reserve Fund heading (RRD5031 2402) Shetland Promotional Costs, which is available to use in support of this project.
- 5.6 If the Council does enter into a Service Level Agreement with VisitScotland it will specify what the Council is agreeing to fund. The

Council will not assume liability for any losses incurred by VisitScotland through this Agreement.

- 5.7 Whichever option is chosen, a report will be submitted to the Council in January 2009 to update Members on progress and seek approval for a funding policy to provide Shetland visitor services and destination marketing for 2009-2012.

6.0 Policy and Delegated Authority

- 6.1 The options for funding Shetland visitor services and destination marketing effort were considered with reference to Economic Development Policy No 6 "Continue to promote Shetland as a high quality visitor destination" Dev.Comm. (Min Ref 01/08), SIC (Min Ref 55/08)
- 6.2 The Development Committee has delegated authority to implement decisions within its remit for which the overall objectives have been approved by the Council, in addition to appropriate budget provision.
- 6.3 While the Development Committee does have delegated authority to approve funding for the Service Level Agreement between the Council and VisitScotland, it cannot make a decision on a matter of new policy. The Committee must therefore make a recommendation to the Council.

7.0 Observations

- 7.1 Shetland's unique identity, remote location and financial commitment to tourism over the last few years have demonstrated that Shetland has a recognised brand of its own and can get a much better return on its investment in terms of visitor numbers and income through partnership with, for example, Atlantic Airways than it can from VisitScotland national campaigns.
- 7.2 It should be noted that promoting Shetland to visitors is only a small part of the marketing process and that Shetland Islands Council is equally committed to improving access to Shetland through better air and sea links and supporting the development of high quality products and services as well as the skills of those involved in the tourism industry.
- 7.3 With regards to state aid, regional brands have been developed throughout the European community with the involvement of public money. Providing funding for non-discriminatory generic marketing, which does not distort competition but does serve to target awareness of Shetland, is not likely to be a state aids issue. However, any assistance that provides a competitive advantage to individual businesses and has the potential to distort competition between member states would have to comply with state aids regulations.

- 7.4 The options for funding Shetland visitor services and destination marketing effort between 1 April 2008 and 31 March 2009 and in the longer term, as described in this report were discussed by the Tourism and Culture Panel (TCP) on 16 May 2008. It was the unanimous view of the TCP members present at the meeting that Shetland should progress Option 3 and develop a new system, which includes a Service Level Agreement with VisitScotland for the services that will benefit from being provided centrally and set up a DMO in Shetland to provide the services that will benefit from being managed and developed locally.

8.0 Conclusion

- 8.1 All VisitScotland restructuring to date has served to reduce regional autonomy. It is a process that began three years ago and is set to continue until VisitScotland has the authority to achieve its Scotland wide targets in the most cost effective way.
- 8.2 Just as VisitScotland has to decide what is the most effective way to target its budgets and use its staff to achieve its objectives on a national scale, the onus is on Shetland to do the same at a local level.
- 8.3 The changes that VisitScotland has introduced are, in our view, inappropriate for Shetland. However, the new circumstances offer an opportunity to better target Shetland's resources to meet local marketing priorities. If managed well this could actually strengthen Shetland's position as a distinct and distinctive visitor destination and could also contribute to building Shetland's brand reputation for high quality products and services across all industry sectors.

9.0 Recommendations

- 9.1 I recommend that the Committee recommend to Council to:
- a) Approve a grant of £330,000 for the network office of VisitScotland relating to the 2008-2009 financial year, subject to the conditions described in section 3.5 and 5.3 - Option 3 of this report.
 - b) Approve spend of up to £20,000 to seek clarification on the European and domestic legal requirements with regard to setting up and operating a DMO in Shetland: and, research appropriate local mechanisms for providing visitor information and destination marketing services for Shetland that builds on existing local partnerships and utilises existing local skills and resources.
 - c) Subject to a positive outcome from the research described above, authorise the Head of Business Development, or his nominee, to progress the setting up of a DMO that: can provide high quality and effective Shetland destination marketing and visitor information services, where there is a real benefit in these services being managed locally.

d) Report back to Council to update Members of progress and seek approval for a funding policy to provide Shetland visitor services and destination marketing for 2009-2012.

9.2 The details of any funding agreement with VisitScotland would be included in a Service Level Agreement that would be signed by VisitScotland and the Chief Executive of Shetland Islands Council.

Our Ref: LC/KS/RF024
Date: 28 May 2008

Report No: DV024-F

PROPOSED COSTS			
<u>Shetland Office Running Costs</u>			
Property Costs	£ 35,000		
Admin and services	£ 36,000		
Misc. Costs	£ 10,000		
Employee Costs	£315,000		
		£396,000	
<u>Local Information Services</u>			
"i" point services	£35,000		
Digital information network	£15,000		
Welcome Ashore-Cruise Line Services	£10,000		
		£60,000	
<u>Marketing & Promotional Costs:</u>			
Vistshetland.com	£40,000		
Accommodation Guide	£60,000		
Promotional DVD CD Rom	£20,000		
Route Development/Joint Promotion	£50,000		
Media Advertising	£30,000		
Fulfilment	£19,000		
Promotion PR and familiarisation trips	£19,000		
		£238,000	
TOTAL			£694,000
PROPOSED FUNDING			
<u>Shetland Office Running Costs</u>			
Industry Income	(£47,000)		
TIC Income	(£81,000)		
HAL	(£22,000)		
Council	(£95,000)		
VisitScotland (Own Funds)	(£151,000)		
		(£396,000)	
<u>Local Information Service</u>			
Lerwick Port Authority	(£ 5000)		
Council	(£55,000)		
		(£60,000)	
<u>Marketing and Promotion</u>			
(Industry Income)	(£38,000)		
Council	(£200,000)		
		(£238,000)	
TOTAL			(£694,000)

Objective: Attracting Visitors to Shetland

Activity	2008-09 Target	Progress Report	% Complete
Ensure that visitshetland.com website is a marketing priority, is of excellent quality and that its design remains consistent the Shetland Brand Style.	<ul style="list-style-type: none"> • Site hosted independently on current platform and maintenance contracts • Prominently promote the local Shetland contact number • Provide an online "customer service" facility direct to Shetland staff • Daily updates to the site all year round to increase repeat visits • Refresh look & feel, update and/or revise copy • Monthly newsletter and increase subscriptions by 15% • Targeted Internet marketing campaigns and expand Google Ads • Provide increased use of high definition video throughout site • Integrate image gallery and e-shop into main website functionality • Integrate walking website into main website functionality • Add 10 new walks to the online listing • All Multi-lingual guides made available in digital brochure format • Provision of monthly web analysis reporting • Provide a section within the website specifically for Press/Media • Provide regular competitions online to increase return visits and interaction • Continue the established annual Photographic Competition • Continue to update content for 60 North FM – online cultural station • Investigate all options and barriers to local accommodation providers becoming bookable online • Increase the Shetland-wide webcam network by 50% (8 in total) • Increase the revenue generated by the E-Shop by 20% 		
Production and distribution of 2009 Shetland Guide under local control	<ul style="list-style-type: none"> • Evaluate the Guide and DVD 2008 distribution by July 2008 • Produce an estimated value of around 40,000 copies by November 2008 • Promotional material to be available within VisitScotland network 		
Production and Distribution of 2009 interactive brochure/	<ul style="list-style-type: none"> • Update and improve current version based on feedback to date • Produce an estimated value of around 30,000 copies by February 2009 • Promote the DVD in all online campaigns 		

promotional DVD's	<ul style="list-style-type: none"> • Provide promotional material for at least 6 Shetland events/promotions 		
Targeted advertising to niche markets appropriate to the Shetland market	<ul style="list-style-type: none"> • 10 adverts/advertorials • Continue regular presence in Coast Magazine • Continue regular presence in Walking publications 		
Provide Public Relations and Media support service	<ul style="list-style-type: none"> • At least 8 media visits • At least 10 media features • Provide support to other key Shetland agencies e.g. Arts, Heritage • Work with VisitScotland PR team to seek appropriate opportunities • Local office to fully aware of all media/journalist/buyer trips in advance 		
Development of a Shetland Pass to promote an integrated approach to internal transport and activities	<ul style="list-style-type: none"> • Work with VisitScotland Edinburgh to learn from the Edinburgh Pass • Work with key agencies to provide a product relevant to a Shetland visitor • Provide a package to sell online pre-arrival 		
Encourage joint marketing with all transport carriers and other Shetland industries as well as the participation in relevant national campaigns	<ul style="list-style-type: none"> • Support at least 2 relevant national VisitScotland campaigns • Provide Return on investment (ROI) analysis from the campaign manager • At least 1 partnership project with VisitOrkney, Loganair & Northlink • Support route development in London and Norway • Provide monthly reporting on the national campaigns that provide direct or indirect benefit to Shetland 		
Support the development of the Shetland Brand	<ul style="list-style-type: none"> • Work in partnership with SIC Marketing Department as ambassadors for Shetland as a destination • Ensure that all consumer facing Shetland promotion uses the trading name "VisitShetland" and adopts the Shetland Brand. • The strapline (Pride of Place) to be prominent on all promotional material • Support activities in Sport, the Arts and Culture events as ambassadors for Shetland as a destination. 		

Objective: Engage and work in partnership with the tourism industry in Shetland

Activity	2008-09 Target	Progress Report	% Complete
Encourage industry to participate in national marketing initiatives where there is a good fit with Shetland's local tourism product	<ul style="list-style-type: none"> At least 12 businesses involved in shoulder season campaigns Provide ROI analysis from the campaign manager to businesses involved At least 4 businesses involved in VisitScotland international marketing Produce a report on each business showing their annual product purchases 		
Participation in the VisitScotland Challenge Fund	<ul style="list-style-type: none"> Circulate information on revised challenge funding highlighting areas of particular relevance to Shetland Encourage and support applicants wishing to apply for challenge funding 		
Encourage participation in print and online marketing opportunities including an increase in online booking facilities	<ul style="list-style-type: none"> At least 225 businesses included Encourage businesses in new promotional opportunities in Digital & Online formats At least 50% businesses actively promoting their products on visitshetland.com Encourage at least 10% of businesses to provide an online booking facility Encourage at least 50% of businesses to provide accommodation availability 		
Promote Shetlands Business Gateway for tourism related enquiries	<ul style="list-style-type: none"> Maintain regular contact with HIE and EDU Raise awareness of and refer operators to Shetland's Business gateway where new or existing tourism businesses require development or funding advice. Raise awareness of training opportunities to both industry and stakeholders Carry out mock QA assessments for new tourism businesses Encourage participation in Shetland's annual Occupancy Survey 		
Support quality improvement	<ul style="list-style-type: none"> Raise awareness of the VisitScotland Quality Assurance scheme(s) Encourage the development of service skills and quality business operations At least 2 eating establishments signed-up to the "Eat Scotland" scheme Work with HIE and EDU to design and support initiatives which contribute to quality improvement in the tourism sector 		
Improve contact and communication with	<ul style="list-style-type: none"> Provide regular 'open nights' in Lerwick TIC – e.g. last Tuesday every month Encourage new businesses to present to staff and industry 		

Shetland's tourism industry	<ul style="list-style-type: none"> At least 4 "clinics" on Shetland's smaller islands or peripheral areas to meet local tourism industry & groups 		
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Objective: Enhance the Visitor Experience whilst in Shetland

Activity	2008-09 Target	Progress Report	% Complete
Provision of high quality local visitor information at strategic locations throughout Shetland using multiple channels for delivery	<ul style="list-style-type: none"> Provide the full range of TIC services from Lerwick Information Centre Provide combined airport & visitor information at Sumburgh Airport in partnership with HIAL Develop the local information services currently provided at Shetland's 11 existing "staffed" i points, in partnership with contributing visitor attractions. (Opening hours and training requirements to be negotiated by Feb 2009) Manage and update the content of Shetland's 11 existing Tourist Information Points Provide an additional "staffed" i point at the Cabin Museum, utilising the attractions existing customer service staff, in Laxo and an additional TIP at the Bressay ferry terminal in Lerwick. Arrange the regular stocking of onboard information racks on Northlink Ferries with Shetland visitor information Work with local hotels to support their staff to provide an enhanced information service Maintain and enhance Shetland's SMS Text Information Service – "text SHETLAND to 80010" Provide Information Radio at 6 sites – 60 North FM – 87.7MHz Provide wireless Internet information services at 6 sites across Shetland Provide a daily "What's On" bulletin, available via email or downloaded from website Provide a TV information service on Plasma screens at Sumburgh Airport, Lerwick Information Centre and at the best location for visitors arriving by ferry (eg Holmsgarth terminal or on board ferry) 		
Tourist Information Services opening hours and staffing are funded on the basis of	<ul style="list-style-type: none"> Lerwick TIC: 1st Apr to 31st Oct 0800-1800 Mon-Fri and 0800-1600 Sat/Sun Lerwick TIC: 1st Nov to 31st Mar 0900-1700 Mon-Fri and 1000-1600 Sat Sumburgh Airport: All year and airport opening hours approx 0730-2000 i points : Seasonal 1 May- 30 Sept inclusive. 		

an enhanced visitor experience	<ul style="list-style-type: none"> • Staffing will be sufficient to meet and/or exceed the visitor expectations • Staffing must anticipate demands of the peak season and cruise ship visits • A tour booking service to be provided for industry on commission sales basis • Retail operation to focus on local arts and crafts in line with Visitor Survey • Deliver at least 5% increase in retail income • Shetland Branding must be prominent in all Shetland Visitor information facilities. 		
In partnership with Lerwick Port Authority and Shetland Islands Council provide a Cruise Liner "Welcome Ashore" service	<ul style="list-style-type: none"> • Member of VisitShetland staff to meet and provide a face to face information service to every cruise ship on arrival in Lerwick (approx 48) • Provide a Shetland Information Pack, promotional DVD and mini guides to every cruise liner • Provide a Shuttle Bus from Holmsgarth Terminal into the town centre • Provide basic orientation information for cruise ship passengers on disembarkation • Man a remote information point at pontoon to ease burden on main TIC 		
Communications with aspiring visitors shall be handled within Shetland or handed back to Shetland team when appropriate	<ul style="list-style-type: none"> • A dedicated local contact number will be provided as the first point of contact • During opening hours all telephone calls to be handled by local information team • Email and/or written enquiries to receive a response within 24 hours • Act as a signposting service for information specifically for visiting yachts • The establishment of an 'opt-in' SMS service to inform the accommodation providers of booking requests during peak season. 		
Visitor Feedback should be obtained at every opportunity to continually evaluate the visitor experience	<ul style="list-style-type: none"> • Encourage visitors to provide written feedback of their experience where possible • Work with nationally approved electronic data gathering systems to collect relevant information from visitors • Use the TourCMS system to provide data on visitors using tour operator products 		
Training	<ul style="list-style-type: none"> • All staff should take part in familiarisation trips to improve product and local knowledge • Work with EDU, Shetland Heritage Association (SHA) and Shetland College to develop 1 local initiative which offers accredited training to visitor attractions that wish to provide an improved visitor information service • Provide at least 1 days training to all i point network staff 		

Objective: Provide Strategic Direction to Shetland's Tourism Industry

Activity	2008-09 Target	Progress Report	% Complete
Monitoring of the Shetland Tourism Plan 2006-2009	<ul style="list-style-type: none"> Review progress against agreed Action Plan – prepared biannually Provide representation at the Shetland Tourism Association meetings Lead on the VisitScotland input to local tourism action plans 		
Ensure the scope and value of the tourism sector is acknowledged in debates on future economic and social strategies including Shetland transport strategy	<ul style="list-style-type: none"> Represent VisitScotland on the Tourism & Culture industry panel Attend any sub-group meetings where appropriate Provide a local tourism expert opinion to other industry groups Continue to support ZetTrans in an advisor capacity in matters of transport Support the Shetland Cultural Strategy Action Plan Contribute to the ongoing development of initiatives prioritised within the Shetland Heritage Tourism Investment Programme 		
Support local tourist providers from all sectors to embrace online booking.	<ul style="list-style-type: none"> Provide expert opinion on appropriate use of technology in enabling e-commerce Increase sales channels for industry products to improve visitor experience Ensure visitshetland.com supports Shetland's e commerce initiatives. Ensure partnership working across multiple agencies to integrate systems 		
Delivering a Shetland-wide local information network	<ul style="list-style-type: none"> Support the delivery of a fully integrated local information service Work closely with local information outlets to enhance the range of services provided by Shetland's <i>i</i> point network Work closely with Shetland Arts in providing channels for the Shetland Box Office Ensure staff work closely with <i>i</i> points establishments to share local knowledge 		

Ensure that Shetland's online marketing strategy delivers on a programme of continual enhancements	<ul style="list-style-type: none"> • Provide vision and direction to ensure visitshetland.com continues to promote Shetland as a unique high quality visitor destination • Monitor and evaluate performance and ensure site remains dynamic and fresh • Continue to ensure all VisitShetland generated promotional material is compliant with the Shetland Brand 		
Ensure retail & other commercial activity is of a first class offering and aligned to Shetland's Brand values	<ul style="list-style-type: none"> • Ensure focus is on local arts & crafts industry • Ensure the Shetland Brand style guide and brand values are reflected in all activity • Deliver an enhanced Tour Booking Service to both visitors and local operators • Ensure retail enhancements to inspire and also increase spend per visitor • Continue to work with and support the Creative Industries in Shetland 		
Ensure the local office of VisitScotland engages fully with the Shetland tourism industry	<ul style="list-style-type: none"> • Ensure appropriate campaigns are made available to local providers • Meet with local community tourism groups to seek feedback on performance • Ensure VisitScotland activities are communicated to local industry • Provide leadership to the local team & co-ordinate inter-functional working 		



REPORT

**To: Development Committee
Infrastructure Committee
Services Committee
Shetland Islands Council**

**5 June 2008
10 June 2008
12 June 2008
25 June 2008**

From: Policy and Development Assistant

Report No: CE – 20 – F

Shetland Population and Migration Study

1 Purpose

- 1.1 This study was designed to establish how the population in Shetland, and in different areas of Shetland, is changing; to make projections to 2030 and develop a model for predicting population change in the Islands.

This report informs the council of the progress achieved and the final analysis of the Shetland Population and Migration Study.

2 Link to Corporate Priorities

- 2.1 The Community Planning Board has committed to increasing the size of the population of Shetland to 25,000 by 2025. In – Migration will be a key factor in how we achieve this priority.
- 2.2 Shetland Islands Council subsequently endorsed this objective within the current Corporate Plan. The Plan goes on to commit to the completion of the study on population projections to assist in “basing all our decisions on evidence”.

3 Background

- 3.1 The primary reason for the Shetland Population and Migration study was because existing population projections were heavily based on historic trends, which do not take into account either more recent trends or the potential impact of policies going forwards. As a result, there was a requirement to develop population projections based on an assessment of the current population situation, and an analysis of how current trends and policies may change this in the future.

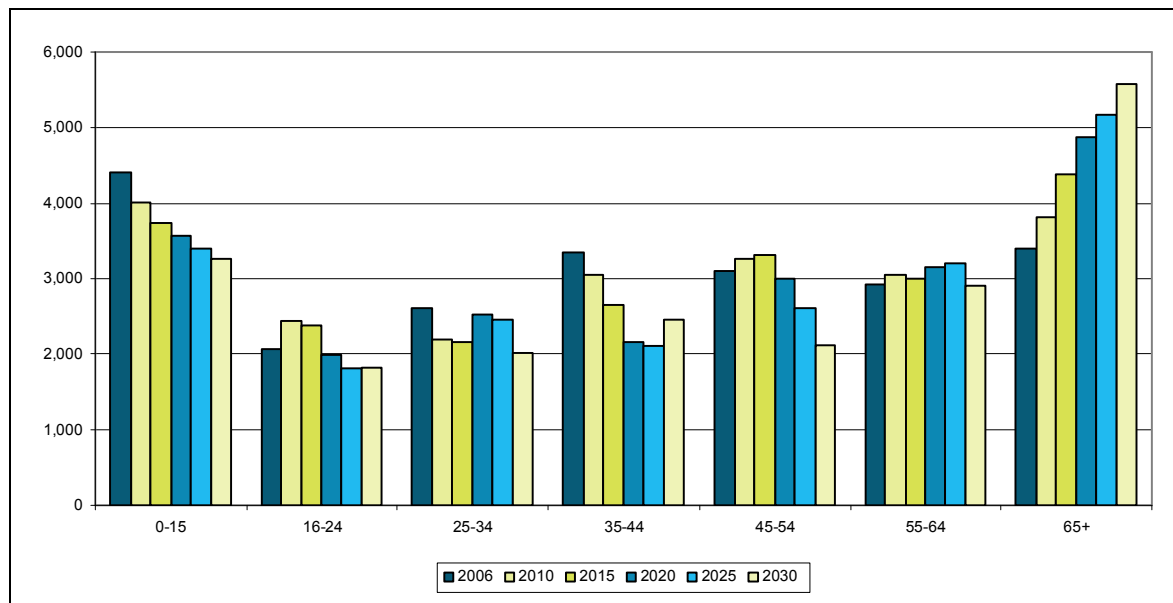
It has been recognised that more people living, working and studying in Shetland are essential factors for sustaining communities and the economy long – term.

4 Key Findings

4.1 A few of the key findings highlighted within the population and migration final report are as follows,

Population and Baseline to 2030

- Current population of Shetland is 21,880



The population model is based on birth rates and migration trends continuing as present. This indicates the following changes in Shetlands population by 2030;

- The overall population dropping to around 20,000
- A drop of 18% in the number of women in the child-bearing age group;
- A drop in the working age population (18-64) of 3,000
- An increase of 63% in the number of residents aged 65 and over; and
- A decline of almost a third in the number of school-age children

Council and NHS budgets are already stretched therefore with an aging population profile this will put a heavy burden on the extensive care service already provided. This is combined with a significant decline in the women of childbearing age and the number of school age children. This does not provide for a vibrant sustainable economy.

Education/school Rolls

- Primary School Rolls in the North Isles of Yell, Unst and Fetlar, have been in decline since 1981. Whalsay and Skerries school rolls have been declining since the late 1970's

- South Mainland and Central primary school rolls have stagnated at a 1991 level.
- The West Mainland School Roll has shown the most positive pattern, sustaining a higher number than in 1976 (Oil Boom).
- Population growth stemming from the development at Sullom Voe resulted in families moving into communities in the North Mainland area.

Housing

- Evidence shows that housing constraints can be a barrier to sustaining fragile populations, and in other Island Communities house building has been an essential factor in developing local economies.
- Since 1991 there has been a significant decline in the number of house completions, although last two years have been higher because of the increase in the number of homes being built by Hjaltland Housing Association.
- With available land in Lerwick in decline, the Central belt and the South have become much more important for development. Average size of households are becoming smaller, therefore need more houses to sustain the current population.

Migration

- Shetlands birth rates are higher than the death rates therefore Shetlands population decline can be linked to net out migration.
- Primary factor in the net out migration is young people leaving for Higher Education and to gain better career opportunities then not returning to Shetland.
- Drift of the population in peripheral areas, especially the North Isles, to the central mainland.
- Since EU expansion in 2004/05, the Shetland Islands have had a greater number of incoming overseas workers than the other two Island Local Authorities; the Western Isles and the Orkney Islands.
- Many Sectors of the Shetland economy now rely heavily on migrant workers, which in turn leads to increasing demand on services such as English for Speakers of Other Languages and school provision. The future of economic in-migrants is uncertain however, as immigration legislation is tightening and economic factors may mean that the UK is not viewed as such an attractive destination in forthcoming years.

Possible Policy Options (refer to page 75 of study for all options)

If we do nothing what will happen by 2030;

- Primary school age population falls by approx 600
- Working age population falls by 3,000
- % of under 35's in the population falls to 35%
- Number of annual births fall by approx 46
- Women of child bearing age falls by 18%

If we were to increase all in-migrant age groups under 45 by 20%, by 2030;

- Total population = 21,352
- Primary school age population falls by approx 400
- Working age population age falls by 1,500
- % of under 35's in the population falls to 36%
- Number of annual births fall by approx 20
- Women of child bearing age falls by 10.4%

To reach the Community Planning Target of increasing the Shetland population to 25,000 this will require significant effort and co-ordination, however this could be achieved by 2025 if we were to;

- Increase all in-migrants age groups under 45 by 50% and
- Reduce out migration by 50%(16-34).

5 Financial Implications

Dependent on follow up, there may be financial implications as a result of this report due to the policy initiatives necessary for the future of a Sustainable Shetland economy. Any such initiatives and their specific financial implications would however be the subject of future reports.

6 Policy and Delegated Authority

As this is a Council corporate initiative linked to Community Planning with potential Council wide significance it is appropriate to report back to Council and seek their views on further steps.

7 Recommendation

It is recommended that the Council discuss and advise a viable way forward for the proposals and recommendations outlined within the population and migration study

Date: 17/04/08
Our Ref: LS/JRS

Report No: CE – 20 – F

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1 Executive Summary

Shetland Islands Council (SIC), HIE Shetland, NHS Shetland, Communities Scotland and Shetland Community Economic Development Trust have recognised that more people living, working and studying in Shetland are essential factors for sustaining communities and the economy in the long-term. In Autumn 2007, the partners commissioned Hall Aitken to research current and historic population trends and the projections of likely future trends. This was to include:

- Research into current and future population trends;
- Identifying the factors which may influence these future trends; and
- Developing a model that can produce more accurate projections.

1.1 Population trends

Historic trends

Historically the population of Shetland has fluctuated significantly from a high point of around 30,000 to its lowest level of 17,000. Population change has always closely mirrored economic opportunities and the population increased by around a third between 1971 and 1981 due to the major oil-related developments at Sullom Voe.

Current population

At 2006 the population was estimated to be 21,880 and the overall total has been relatively stable since the 2001 census. But since the 2001 Census there has been a significant rise in the percentage of the population aged 50-59, 60-69 and 80+. It has been estimated that, in the next 25 years, Shetland will experience a 50.7% increase in the number of islanders of pensionable age, while the working-age population will decrease by 20.7%.

Factors of change

While Shetland has a high birth rate and shows a natural population increase (more births than deaths) this is balanced by net out-migration. The net loss was 65 people between 2005 and 2006, and this loss impacts most keenly on younger age groups, particularly among females age 16-24 while the gains were in groups aged over 45.

Geographical aspects

Recent population changes also show variations across different parts of the Islands. Between 1991 and 2001, the population of the North Isles of Unst, Yell and Fetlar declined by 21%, while the population of the Greater Lerwick area increased by 0.9%. This is due to a drift of population towards the service centre of Lerwick combined with continuing population decline in more peripheral parts of the Islands. This has implications for services, for example the primary school roll in the North Isles has dropped by 50% between 1996 and 2006.

Service impacts

These population patterns are influencing housing demand with major increases in housing completions within Central and South Mainland over recent years.

Shetland has benefited from migration from the recent EU Accession states and other overseas nationals. The number registering each year increased from just 40 in 2003/04 to 170 in 2006/07. These people tend to be younger and more economically active than the overall population.

Current trends

Current and emerging trends that are likely to influence population change in the medium term are:

- A continuing flow of lifestyle in-migrants who are attracted by Shetland's natural environment and safe communities;
- A likely decline in the numbers of Eastern European migrant workers coming to Shetland; and
- Continuing drift of economically active population towards greater Lerwick contributing to ageing population in peripheral communities.

1.2 Drivers of population change

Job opportunities

Our research found that employment opportunities are critical to population sustainability. The decline in good quality job opportunities in some of the more peripheral parts of the Islands is accelerating the drift in population towards Lerwick where most services and employment opportunities are focused. The overall number of jobs taken by females has decreased and particularly within the private sector. It is becoming more difficult for both partners in a couple to find suitable job opportunities that match their skills and aspirations.

Education

The high standard of education and consequent school expectations mean that most qualified young people leave the Islands for education on the Scottish mainland. At the same time employers are experiencing problems in recruiting staff for some lower skilled jobs and are becoming more reliant on migrant workers.

A weak private sector

It appears that the jobs and services offered by the public sector in Shetland have limited the motivation and opportunities for private sector enterprise. There is a suggestion that many potential entrepreneurs have had to leave the islands to establish their business.

Housing is an important factor

Our research found that access to housing is an important factor that contributes to population change. The drift of population towards greater Lerwick has resulted in:

- More properties in outlying areas becoming second or holiday homes; and
- A pressure for new housing within parts of the Central and South Mainland.

And many younger households without access to land or family housing struggle to find affordable housing which it makes it difficult for them to re-settle in Shetland.

Environment attracts migrants

The quality of Shetland's natural environment and the levels of service provision available are attractive to lifestyle in-migrants. These in-migrants tend to be older and are often financially independent.

1.3 Experiences of population change

Our research looked in greater depth at the characteristics and motivations of different groups including:

- Those who stayed in the Islands;
- Those originally from Shetland who have left;
- Those who left but have returned; and
- Those who have chosen to live in the Shetland Islands

There are notable differences in the personal characteristics of these stayers, out-migrants, returners and in-migrants.

Stayers

Stayers were less likely to have degree level qualifications which highlights the role of pursuing education as a driver of out-migration. There were fewer people aged 16 to 24 in the stayers group perhaps because of this. Half of all stayers had actually considered leaving. The most influential factors in helping individuals in their decision to stay were:

- A safe environment;
- Being able to be close to family;
- Raising a family; and
- A natural environment.

For many stayers relationships and family connections were also key factors in their decision.

Returners

Most returners had left Shetland to pursue higher education, although over half stated that career progression was a factor. Returners (along with in-migrants) were more likely to have higher qualifications and higher skilled jobs than stayers. This suggests that the availability of good quality and well-paid jobs is a key driver for returners. The main drivers for their return centred on:

- Being close to family;
- A love of island life, an 'affinity' with its sense of community; and
- Suitable employment opportunities.

The majority of returners had returned before they were 35 and the age profile of returners was therefore younger than the other groups living on Shetland.

In-migrants

In-migrants had the oldest age profile among the groups we surveyed with around 60% aged 45 or over. They were also most likely to be working as professionals or senior managers, with 68% of respondents identifying these occupations.

Shetland's quality of life is a major motivating factor for in-migrants, the main motivations were:

- Natural environment;
- Safe environment; and
- Sense of community.

In-migrants in our survey were more likely to have dependent children than returners suggesting the presence of children may contribute to the desire for a safe environment.

Out-migrants

Out-migrants tended to be younger than the other groups surveyed and they were far less likely to have dependent children compared to Shetland-based groups. There are higher self-employment rates among out-migrants, almost twice that of Shetland-based groups. This suggests that there is some basis for the view that those wishing to set up a business often do so outside of Shetland. The main motivations for leaving were:

- Opportunities for career progression;
- Diversity of work available; and
- Mainland lifestyle.

Only one in five respondents who left Shetland is planning to move back, and for two out of five it is either unlikely or they already know they will not return.

1.4 Population projections and implications

Population modelling

Our research involved developing a population model that will allow local agencies to test the implications of different trends and factors on population outcomes. It is not a population projection or prediction, but can be used to compare the likely implications of policies on population sustainability and service provision.

Results from the model based on current migration trends continuing show a sharp shift in population, including:

- A steep drop in the numbers of children under 16;
- A decline in the numbers of 16 to 24 year olds after 2010;
- A rapid and continuing increase in the elderly population.

The overall population would, if current trends continue, drop from just under 22,000 to just over 20,000 by 2030. The number of people aged 65 and over would almost double between 2006 and 2030 based on this scenario.

Impacts of population change

These changes would have implications on the labour market, with a declining (and ageing) working age population and on the cost and viability of service-provision. In particular a reduction of a third in the school roll would threaten the current number of schools. And the major increase in the elderly population would put pressure on health and social care services both in terms of funding and recruiting the necessary

staff. The likely outcome would be a reduction in the level of services (mostly in outlying areas) and an increasing reliance on migrant labour.

1.5 Future population priorities

Our consultations and population research suggests that the overall size of the population is less important than achieving a healthier balance in terms of age and gender. Our research suggests that the overall aims for population sustainability by 2030 should be to:

- Sustain the proportion of the population that is of working age;
- Stabilise the school-age population;
- Sustain the number of females of child-bearing age; and
- Retain the populations of the most fragile communities.

While this does not necessarily require the population to increase to 25,000 it is clear that significant population increase is needed to ensure a sustainable and balanced population in the longer term. However age and distribution of population are more important than overall totals.

1.6 Areas for policy focus

Our interviews with service providers and other key stakeholders have highlighted several issues that need to be addressed by policy-makers. These are summarised below:

Living within our means

The research identified an overwhelming awareness among interviewees that the level of spend and service-provision is unsustainable. The Council is seen to be living beyond its means and 'squandering' the remaining oil revenue. Many people identify the need for tough decisions on prioritising expenditure in the very near future.

Re-adjusting services

The current expenditure on service provision will need to be reined in and this will clearly have an impact on the scale or quality of services that the Council can fund. The impact on levels of service provision might make the Islands less attractive to some groups who are currently attracted by the quality of service.

Balancing the population

There is a strong feeling that the current target of increasing the population to 25,000 is unrealistic. This was the high point of population when Sullom Voe was at its peak and it would be difficult to imagine any future employment opportunities on this scale. Many felt that adjusting the level of service provision to match realistic population estimates makes better sense than trying to grow the population to justify unsustainable levels of service provision.

Distributing population growth

There were mixed views as to whether there should be positive steps taken to grow key settlements outside of Lerwick. Some stakeholders felt that the drift of population towards Lerwick was inevitable and that policy should support market

forces. Others thought that some effort should go towards sustaining growth centres where there had been significant investment in providing facilities. However because the availability of jobs was seen to be the key driver behind population distribution this would require the Council taking the lead in devolving jobs. These devolved centres could then be the focus for developing incubator units for business start-ups and affordable housing.

Promoting self-reliance

The level of public sector services provided for residents has undermined the traditional self-reliance of crofting communities. A greater focus on communities developing their own solutions to meet community service needs will make services more responsive and cost-effective.

Affordable housing

Housing was seen as a key issue in sustaining and growing the Shetland population. In particular affordable rented or shared equity housing for younger people wanting to move back or into the Islands is a priority. The majority of housing need is focused within the greater Lerwick area but housing also needs to be provided elsewhere alongside economic opportunities.

Opportunities for renewable energy

Renewable energy is seen as one future opportunity to support the Shetland economy. There has been discussion about whether the oil revenue should be invested in renewable energy to create a more sustainable revenue stream in the longer term. However even if the Council chooses this option the money will be tied up for a considerable time before any revenue comes in.

Marketing the Islands

Several stakeholders felt that the oil boom had distracted agencies from making serious efforts to market the Islands in terms of local produce or tourism. They felt that some nationally significant resources were not being marketed and that the tourism product had considerable potential for development.

Supporting enterprise

Several stakeholders identified the need for a more strategic approach to developing and growing businesses and this is a current priority for HIE. The limited provision of broadband was seen as a key weakness in developing more globally competitive businesses. Stronger collaboration between the Public sector, Education establishments (such as UHI) and the private sector would help to identify and support a small number of opportunities to develop competitive advantage. Attracting skilled researchers or graduate placements could also help to stimulate enterprise. Providing incubator units or core business support services in association with better broadband access may help to stimulate business start-ups. However the low levels of risk-taking among the indigenous Shetland population is a major barrier to overcome.

Supporting the workforce

Problems in attracting staff in key sectors are predicted to get worse in the medium term suggesting a continued reliance on migrant labour. The growing burden of care

emerging from the ageing population will require a larger and more flexible workforce, and this in turn will have implications for housing provision.

1.7 Key priorities

Our research has identified key population drivers, the likely impacts of continuing trends and some of the challenges currently facing Shetland's communities. We have identified several areas where policy should focus on in order to promote a sustainable population in the medium to longer term.

Policy direction

Revising targets

While the target of 25,000 by 2025 provides an admirable level of ambition for policy-makers, it masks some more important issues around the balance and distribution of the population. We would therefore recommend that the target should be to:

- Sustain the proportion of the population that is of working age;
- Stabilise the school-age population;
- Sustain the number of females of child-bearing age; and
- Retain the populations of the most fragile communities.

Reviewing local public expenditure priorities

It is clear that Shetland has been living beyond its means for some time and that the current level of local public expenditure cannot continue. Difficult decisions will need to be made on:

- Prioritising local public expenditure; and
- A strategy for using the remaining oil fund.

Shetland has become accustomed to providing high quality public services and facilities. But the investment made has not always been in the long-term interests of sustaining communities. The Council and its partners should start to scale back spending to levels in line with other similar sized authorities. Any additional spending from the oil fund or other reserves should be clearly focused on promoting a more sustainable economy in the medium to longer term, for example through:

- Promoting enterprise;
- Developing innovation or competitiveness;
- Generating revenue streams (for example through renewables); or
- Developing business infrastructure (e.g. broadband or incubator units).

However these issues are both sensitive and important so we would recommend a period of community consultation on which course of action to take.

Devolving jobs

If a strategy of supporting more self-reliant communities outside of Lerwick is to be successful this will require sufficient employment opportunities within these areas and the local spend these would generate. As the Council is one of the biggest employers it should take the lead in promoting this policy by devolving employment from Lerwick to the key settlements elsewhere in the Islands.

Marketing Shetland as a place to live and visit

It is clear that the quality of environment and strength of communities are what attracts people to Shetland. However there has been little effort to market these attributes in order to attract either visitors or to add value to locally produced produce. There is also an opportunity to develop niche tourism markets through branding and marketing.

Economic development

Developing the private sector

It is clear that there is a need for more business start-ups in order to address the weaknesses in the private sector. This will require investment in infrastructure that will support new businesses such as start-up premises, broadband and other IT facilities. Business facilities should also help to promote the policy of devolving employment opportunities out of Lerwick.

It will also require more focused awareness-raising of enterprise opportunities among key target groups such as school-leavers, women and in-migrants. Bringing in Shetlanders who have become successful business men and women is one way of doing this.

Adding value to natural assets

Our research has identified some potential for developing greater economic advantage from Shetland's natural assets including produce, culture and environment. This links closely with the issue of marketing outlined above. Partners could help to develop greater added value through supporting the private sector to build clusters around different sectoral groupings such as:

- Crafts;
- Creative industries;
- Eco-tourism; and
- Food and drink.

Added value could be generated through differentiating these products and marketing their quality and exclusivity.

Developing knowledge-intensive sectors

Increasingly economic development requires ways of using knowledge to create competitive advantage and add value to basic production. However this is often difficult to achieve in rural and peripheral areas where there are no large scale Universities to promote research and development. However the North Atlantic Fisheries College already has international research specialisms in several areas and there are proposals for Shetland College (as part of UHI) to develop research programmes in specialist areas such as knitwear and music. Renewable energy will also present future research and development opportunities.

Public agencies should support the knowledge economy through identifying appropriate opportunities for research that link into Shetland's productive sectors. They can also assist through providing graduate placements and secondment opportunities and through joint ventures with research institutions.

Building community enterprise

Elsewhere in the Highlands and Islands community-based enterprises have developed innovative ways of meeting the different service needs of remote

communities. With public service budgets likely to come under increasing pressure in Shetland, the community sector will need to play a greater role in maintaining and delivering local services.

Infrastructure

Housing to support economic growth

It is clear that the availability of housing is a key barrier to increasing in-migration. And there is evidence from elsewhere to suggest that housing provision can help stimulate economic and population growth. While the Council and its partners have made efforts to increase the number of house completions it will be critical that housing continues to support economic development. This will mean providing accessible and affordable housing opportunities in the various growth settlements in conjunction with the devolved jobs and business infrastructure previously discussed.

Improving broadband

In rural areas self-employment is generally more widespread than in urban areas and reliable high speed broadband is increasingly important to running most types of business. So investing in broadband technology will be important for promoting Shetland as a location for self-employed lifestyle in-migrants and for developing indigenous business start-ups.

Community support

With an increasing need to attract in-migrants and the accompanying increased housing requirements, continued support for integrating the migrant community is essential. The efforts undertaken by the Council, Shetland College and the voluntary sector to date have been commendable. However it will be important that there are adequate resources to provide ESOL classes, language support for schools and translation services for public agencies. Support for community-based awareness raising and integration are also necessary to help the indigenous population to embrace these new Shetlanders.

2 Introduction

This section outlines the background and rationale for the study. It also sets out the objectives of the research and the methods use to meet these.

2.1 Background

Shetland Islands Council (SIC), HIE Shetland, NHS Shetland, Communities Scotland and Shetland Community Economic Development Trust have recognised that more people living, working and studying in Shetland are essential factors for sustaining communities and the economy in the long-term. Population decline has now come to the fore as a key issue within several local policy documents:

- Population decline is identified as a key issue in 'A Sustainable Vision for 2016' (2000);
- Population has become a key priority area in the Shetland Structure Plan 2001-2016; and
- In 2006, the community planning partners set a target of 25,000 people living in Shetland by 2025.

Also, an ageing population is driving up service costs against a background where SIC are trying to secure financial sustainability (Audit Commission 2007).

2.2 Research objectives

In Autumn 2007, the partners commissioned Hall Aitken to research current and historic population trends and the projections of likely future trends. This was to include:

- Research into current and future population trends;
- Identifying the factors which may influence these future trends; and
- Developing a model that can produce more accurate projections.

Specifically, Hall Aitken were to address the following aspects while looking at issues such as age, gender, locality and economic activity:

- What has driven population change since 2001?
- What are the factors influencing migration and what are the characteristics of migration groups?
- What are the necessary factors for sustainable communities?
- How will the makeup of the population in 2030 affect Shetland society, economy and services?
- What actions can public agencies take to foster population and service sustainability?

2.3 Method

The research involved a wide range of approaches including:

- A review of official statistics to develop a population change model;
- A literature review;
- Interviews with 15 key stakeholders;

- A web-based survey, distributed through SIC contact lists and online “Shetland Networks” with 1570 responses from current and past residents of which 1,357 were fully complete. This represents around 7% of the current resident population;
- Four focus groups (Lerwick, Scalloway, Mid-Yell and Brae) with stayers, returners and in-migrants, with follow-up calls in the West Mainland;
- Two focus groups with international economic in-migrants in Lerwick;
- A focus group in Glasgow with individuals who have left Shetland; and
- A scenario-planning workshop with key agencies tasked with taking forward policies.

2.4 Report structure

Following this introduction, the remainder of this report is structured as follows:

- ***Trends in migration*** - examines population trends for each locality in Shetland and Shetland as a whole since 2001. The components of these trends are examined also including births, deaths, net migration and other changes.
- ***Drivers of population change*** - explores the drivers behind population change including jobs and career issues as well as infrastructure issues such as housing and transport.
- ***Experiences of population change*** – examines the motivations behind the migration decisions of stayers, out-migrants, in-migrants and returners. As well as looking at their experiences, it looks more closely at the characteristics and motivations of key groups like women of childbearing age and those out-migrants who are open to returning to Shetland.
- ***Population projections and implications*** – takes current components of population change and uses them to project forward population estimates up to 2030 by locality and for Shetland as a whole. It also offers an indication of the impacts of trends if they continue as currently.
- ***Developing a sustainable community*** - draws on our research, analysis and population modelling to identify what would be a desirable situation by 2030 years. It also identifies the scale and type of population component changes that would be necessary to deliver this, and alternatively, the target of 25,000.
- ***Factors needed for sustainable communities*** - sets out the factors we have identified that will underpin community sustainability and a desirable situation in fifteen to twenty years for a range of population drivers. It highlights the actions that agencies will need to focus on to achieve these outcomes.
- ***Recommendations*** - outlines some of the key longer term strategy objectives and priority areas that local agencies and communities will need to follow to achieve the type of sustainable communities outlined above.

3 Trends in migration

This section examines population trends for each locality in Shetland and Shetland as a whole historically and more recently since 2001. The components of these trends are examined also including births, deaths, net migration and other changes.

Historic trends

Since the 1860s, when the population of Shetland peaked around 30,000, it fell steadily until the 1970s when it hit the historically low level of 17,000. After 1971, there was a significant increase, and in just 10 years the population of the islands rose by over a third, to 22,766 (GROS, 1981 Census). The increases in the 1860s and in the 1970s can be attributed to new economic opportunities. In the mid 19th century, a huge boom in drift-net fishing for herring had occurred and in 1971 major oil industry developments benefited population growth. After the early 1980s the population numbers fell again because of out-migration as oil construction activities ended, and difficulties at Sumburgh Airport emerged (SIC, 2006a, p. 10).

Sumburgh Airport traffic peaked in 1978 with 285,000 passengers on 51,000 aircraft movements. Construction workers for the Sullom Voe Oil Terminal no longer stopped here after 1978, with the re-opening of Scatsta Airport that August. Passenger and flight movements through the airport fell further during the early 1980s, mainly because of the introduction of helicopters, such as the Puma and the Chinook. These could fly direct to the oilfields from Aberdeen. By 1985, passenger numbers had dropped by around 20% while aircraft movements dropped by two thirds compared to 1978.

The overall change in population levels in Shetland is not uniform across all areas. There have been important changes to the distribution of the population within Shetland. Between the 1981 and 1991 Censuses, the population of areas in the South and Central Mainland remained relatively stable or grew, but that in the North Mainland and the North Isles has significantly decreased (SIC, 2000; Community Profiles North Isles and North Mainland). This decline is likely to continue, partly because of the centralisation of the population, and the loss of economic opportunities in the North Mainland and the North Isles. Between 1991 and 2001, the population of Unst, Yell and Fetlar declined by 21%, while the combined population of Lerwick, Gulberwick/ Quarff, Bressay, Scalloway and Tingwall (representing the core of the mainland) increased by 0.9% (SIC, 2005c, p. 5).

Shetland School Rolls

We have looked at changes to the school rolls across the different localities within Shetland since 1971. Primary school rolls provide a useful picture of the shifting population patterns because they are most closely associated with local communities. Looking at this time-frame also allows us to identify the population impacts of the Sullom Voe development and the extent to which the population increases from the 1970's have been retained.

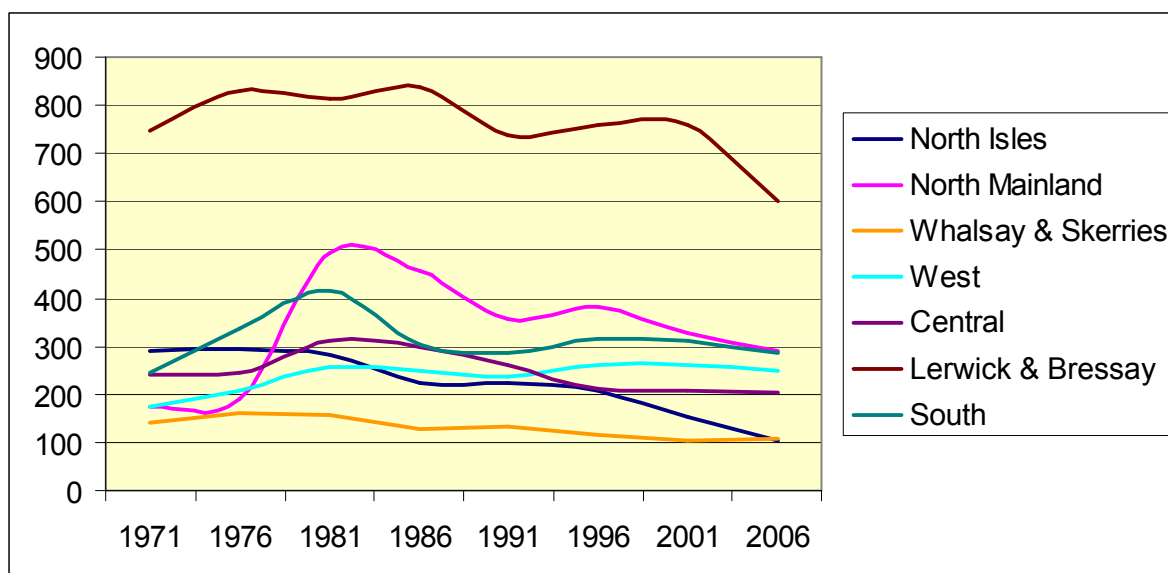
Primary School Rolls

As Figure 1 shows, after major growth in the late 1970's because of the oil developments at Sullom Voe, Primary school rolls have declined in most parts of Shetland. In the North Mainland, the increased population because of the major influx of workers in the 1970s has been sustained to some extent, although the primary roll dipped substantially between 1981 and 1991. However it went from

having the second lowest primary roll in 1971 to having the second highest roll in 2006; approximately double the 1971 roll.

The primary rolls in Lerwick and Bressay remained fairly steady at between 750 and 800 until 2001, but have declined sharply since then to around 600.

Figure 1 Primary School Rolls by area (1971 to 2006)



Source: Shetland Islands Council 2007

School rolls in the South Mainland showed a steady increase between 1971 and 1981, perhaps linked to the development of Sumburgh Airport, but dropped from around 400 to 300 between 1981 and 1986. However the primary school roll has remained fairly constant around 300 since then.

The West Mainland roll shows the most positive pattern, sustaining a higher number of children in 2006 than in 1976 when the oil boom began. The primary roll has shown a slight decline since 2001 however.

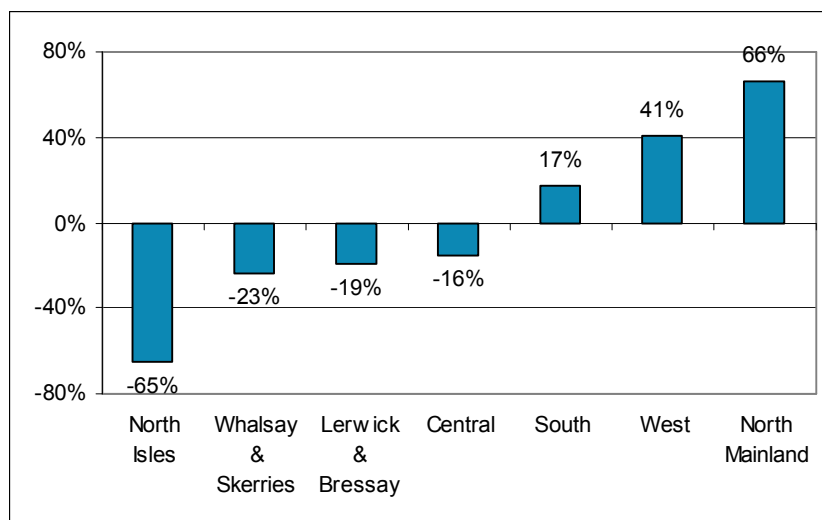
In the Central area of Mainland, an initial increase in the primary roll in the 1970s was followed by a steady decline between 1981 and 1996. The roll has subsequently stabilised and has remained relatively stable between 1996 and 2006.

The primary school rolls in the North Isles of Yell, Unst and Fetlar have declined since 1981, with a particularly steep drop since 1996. By 2006 the roll was only around a third of its 1971 level.

The situation in Whalsay and Skerries is less extreme, although there has been a slow but steady drop in the roll since the late 1970's. The roll has remained at approximately 100 since 1996. However the overall figures mask different trends for Whalsay and Skerries, with the Skerries school roll showing almost continuous decline since the 1970's.

If we look at the changes in primary school rolls overall since 1971, clearly most population growth has focused on the Mainland; with the North and West showing the biggest net increase in primary age children. However despite the increases in the West, North and South mainland areas, the primary school-age populations in Lerwick and the Central part of Mainland have dropped slightly compared to the 1971 level. This suggests that population growth stemming from the Sullom Voe development has resulted in families moving into communities in the more peripheral parts of Mainland.

Figure 2 Primary school roll changes (1971-2006)



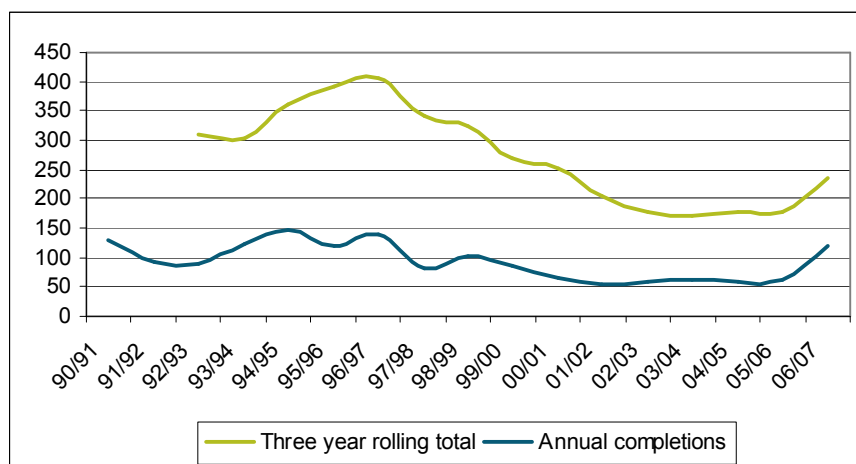
Source: Shetland Islands Council 2007

Over the same period however, there has been a significant drop in the primary age population in the North Isles of Yell, Unst and Fetlar. The primary roll has dropped by two thirds since 1971, with a 50% drop between 1996 and 2006.

Housing completions

Data on house-building and conversion provided by the SIC Planning Department provides another useful indicator of changes in demand caused by population movements (and changes to household structure). There is significant evidence from elsewhere that housing supply constraints can be a barrier to sustaining fragile populations. And in other island communities house-building has been an essential element in developing local economies.

Figure 3 Annual completions and 3-year rolling totals

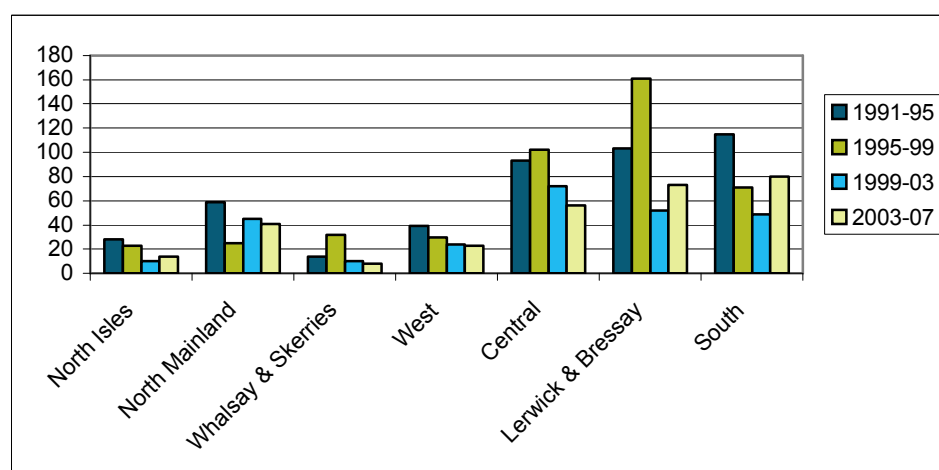


Source: Shetland Islands Council 2007

Across the Islands as a whole there has been a long-term decline in the number of annual house completions since the mid 1990's as Figure 3 shows. However the number of completions in 2006/07 at almost 120 is the highest annual total since 1999 and shows a doubling on the figure of around 60 which has been the approximate number of completions each year since 2000/01.

An analysis of housing completions by service delivery area in Figure 4 shows the overall housing output is dominated by the Greater Lerwick area (Lerwick, Bressay and the South and Central areas of the Mainland). These areas have been providing for between two-thirds and three-quarters of the total number of housing completions. However, the role of the South Mainland area has become more important recently, as land availability within Lerwick itself has declined. In particular, the areas of Gulberswick, Quarff and Cunningsburgh have seen a lot of development activity.

Figure 4 Housing completions by Service Delivery area

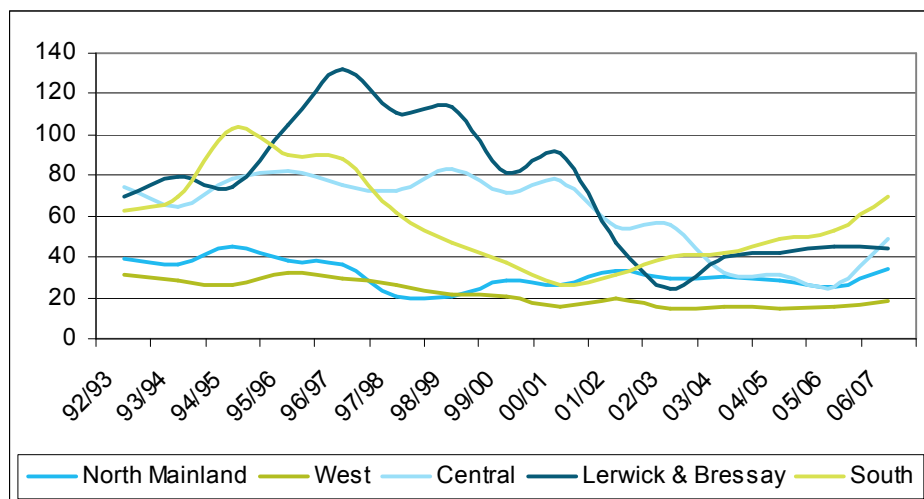


Source: Shetland Islands Council 2007

Rolling totals allow a more measured analysis of demand patterns as they tend to smooth out annual bumps caused by one or two large developments. Figure 5 shows there are clear trends in housing development which are influenced by demand patterns and available capacity. It is clear the dominant role of Lerwick and

Bressay in new housing provision has been in decline since the late 1990's because of the lack of suitable new housing sites. Completions for the Central area have also shown a broadly declining trend since the late 1990's although there has been a recent upturn in 2006/07. In contrast the South has seen a steady increase in the number of completions since the year 2000.

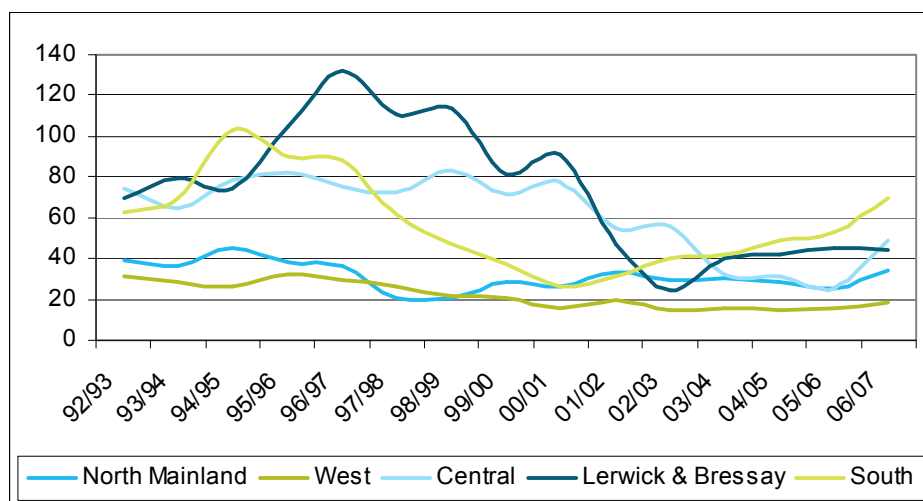
Figure 5 Three year rolling housing completions – Mainland areas



Source: Shetland Islands Council 2007

Data on house completions for the North Isles and Whalsay and the Skerries also show peaks in the late 1990's and a subsequent decline. However the three year rolling total for the North Isles has shown a recent upturn from just 3 in the three years to 2003/04 to 14 in the three years to 2006/07. However the three year total of five for Whalsay and Skerries is the lowest figure since the data was collected.

Figure 6 Three year rolling housing completions – North Isles, Whalsay & Skerries



Source: Shetland Islands Council 2007

3.1 Recent population change

Over the last 20 years, the population of Shetland has declined by 3%. Since the 2001 Census, the GROS has estimated the population levels in Shetland have

remained relatively stable, with the latest estimates showing the population at 21,880 (GROS, 2006 mid-year estimates). There was a slight population increase between 2001 and 2005 (0.2%), although this was still below the increase for the Highlands and Islands (1.7%) and Scotland (0.6%) (GROS, 2001 Census and 2005 mid-year estimates). GROS estimates a decline in population to 19,783 by 2031 (GROS, 2006-based population projections). These projections assume both negative natural change (-2.7%) and negative net migration (-6.9%).

But since the 2001 Census there has been a significant rise in the percentage of the population aged 50-59, 60-69 and 80+ (GROS, 2001 Census and 2006 mid-year estimates). And this is most pronounced in Whalsay and Skerries (Community Profile Whalsay and Skerries).

It has been estimated that, in the next 25 years, Shetland will experience a 50.7% increase in the number of islanders of pensionable age, while the working-age population will decrease by 20.7% (GROS, 2006-base population projections). This is because of increasing life expectancy and older people moving to Shetland for an improved quality of life (SIC, 2006b, p10). There is an imbalance by gender in Shetland as a whole, with a much greater proportion of females than males over the age of 65 (Lerwick and Bressay Community Profile).

In contrast to the Scottish trend in general, and that of the Highlands and Islands specifically, Shetland's birth rate has been consistently higher than the death rate. Since 1995, the birth rate has been higher than the death rate by an average of 29.6 people per year (SIC, 2006b, p11). This suggests the population decline can be linked with net out-migration, which is mainly being driven by young people migrating from Shetland to seek higher education and better job opportunities. The decrease in the population of those aged between 20 and 44 years in Shetland indicates that more young people are leaving the area than are coming in (SIC, 2006b, p2).

The ageing population is a considerable challenge for the area, as communities with a large proportion of inhabitants over retirement age tend to generate lower levels of economic activity and, indeed, the confidence of communities and the sustainability of services can be negatively affected (HIE, 2007, p2.).

Migration data

Birth rates and death rates are fairly predictable characteristics of a population in the developed world. But migration is largely driven by economic and social opportunities and is susceptible to broader changes, even over the short-term. In Shetland, these were responsible for short-term population growth linked to economic factors as outlined earlier. Similarly, the decreases can be linked to economic downturns.

Data on who enters and leaves Shetland is less reliable. Figure 7 shows the best available and most recent data from 2006. While the net loss was 65 people, this loss impacts most keenly on younger age groups, particularly among females age 16-24 while the gains were in groups aged over 45. It is likely that this data underestimates out-migration, as many 16-24 year olds will keep their registration with a doctor in Shetland while at university.

Figure 7 Population migration (total and by gender) 2005-6

	0-15	16-24	25-34	35-44	45-54	55-64	65+
In (all)	54	38	63	76	40	41	19
Out (all)	102	61	70	76	39	29	19

Net (all)	-48	-23	-7	0	1	12	0
In (Males)	21	19	31	35	18	26	9
Out (Males)	65	26	40	35	17	17	10
Net (Males)	-44	-7	-9	0	1	9	-1
In (Females)	33	19	32	41	22	15	10
Out (Females)	37	35	30	41	22	12	9
Net (females)	-4	-16	2	0	0	3	1

Sources: National Health Service Central Register (NHSCR) patient movements mid-2005 to mid-2006. International Passenger Survey (IPS) data.

The Outer Hebrides Migration Study (Hall Aitken and INI, 2007) classifies people moving to the islands as returners, lifestyle migrants and economic in-migrants. According to Blackadder (2007, p.7) Shetland receives a good number of lifestyle migrants and they are important in stabilising the population. However, the age range of this group is not balanced with our survey showing that nearly 60% of people who have migrated to Shetland are now over the age of 45. Some of these will be in-migrants from the 1980s who will have had children in Shetland. But there is much anecdotal evidence to suggest that current in-migrants tend to be older people.

International economic in-migrants

Although not a perfect source of data, National Insurance Number (NINo) registrations provide some indication on the flow of workers from overseas. In line with the Scotland-wide pattern, the Shetland Islands have experienced a year-on-year increase in the number of NINo registrations to non-UK nationals since the accession of the eight East European states¹ to the European Union in 2004. Figure 8 shows the largest influx of overseas workers to the Shetland Islands occurred in tax-year 2006/07 when 170 NINos were registered to non-UK in-migrants. This is up to four times the level of registrations recorded in pre-EU expansion years. For example, in 2003/04 only 40 overseas NINo registrations were recorded.

Figure 8 NINO Registrations for Shetland Islands and other areas 2002/03 to 2006/07

AREA	NUMBER OF NINo REGISTRATIONS BY TAX YEAR					Post-accession total to 2006/07
	2002/03	2003/04	2004/05	2005/06	2006/07	
Shetland Islands	50	40	90	100	170	360
Orkney Islands	20	20	30	60	90	180
Western Isles	20	30	70	130	90	290
Highland	600	690	1,440	2,640	2,620	6,700
Argyll & Bute	180	240	360	700	820	1,880
Scotland	14,520	15,500	22,850	41,370	52,480	116,700

Source: numbers are based on 100% data from the National Insurance Recording System (NIRS).

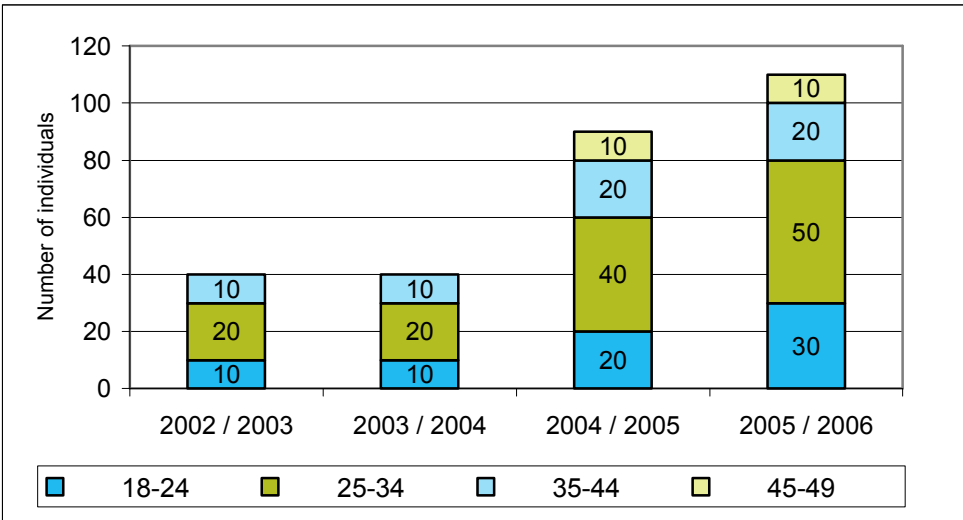
Since EU expansion in 2004/05, the Shetland Islands have experienced a greater number of overseas workers than the other two Island Local Authorities; the Western Isles and the Orkney Islands. Shetland registered 360 NINos to non-UK nationals over the three year period up to 2006/07, compared with 290 in the Western Isles and 180 in the Orkney Islands over the same period of time. The proportion of overseas workers registering in Shetland has also been greater in terms of per head of resident population than that of Orkney and the Western Isles over the past three years (2004/05 to 2006/07). However, all three Island authorities had received fewer overseas migrant workers, per head of resident population, than both Highland and Argyll & Bute areas.

While the rate of NINo registrations in Shetland has continued to increase, the trend for the Highland Local Authority area has plateaued at around 2,600 for 2005/06 and 2006/07, after almost doubling on the level of 2004/05, while the number of those registering in the Western Isles has actually fallen from a peak of 130 in 2005/06, to 90 in 2006/07. Argyll & Bute and Orkney Islands have, like Shetland, experienced a continued increase in 2006/07.

Over the three post-accession years, NINo registrations for overseas nationals in the Shetland Islands account for less than half of one per cent of the Scottish total, and almost four per cent of the Highlands & Islands total.

In the Shetland Islands most non-UK workers registering for NINos were aged from 18 to 34 as Figure 9 shows. This mirrors the nationwide age-balance of migrant workers coming in to Scotland from overseas, with very few aged over 50 or under 18. However, in Shetland from 2004/05 onwards, the proportion of 35 to 49-year olds registering has slightly exceeded that of the national figure for that age group.

Figure 9 Age Group NINo Registrations for overseas nationals to the Shetland Islands

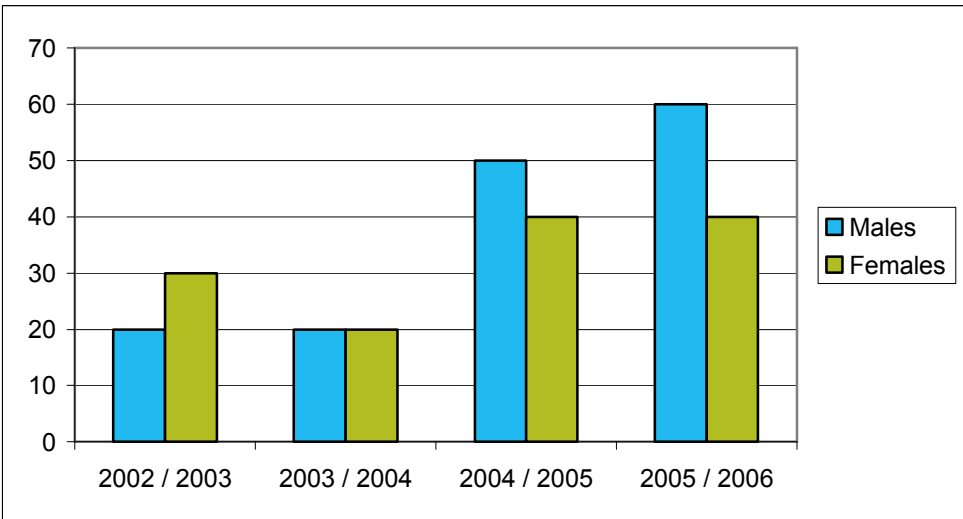


Notes on source data: Numbers are based on 100% data from the National Insurance Recording System (NIRS)

Gender

Workers from outwith the UK registering in the Shetland Islands since EU expansion in 2004/05 have been predominantly male (see Figure 10). This is also similar to the national trend. However the male/ female imbalance is more pronounced in Shetland than for Scotland overall, with the female to male ratio of overseas NINo registrees in Shetland being 1 : 1.5 compared with the national ratio of 1 : 1.2 over 2004/05 and 2005/06.

Figure 10: Gender of NINo Registrations for overseas nationals to the Shetland Islands 2002/03 to 2006/07

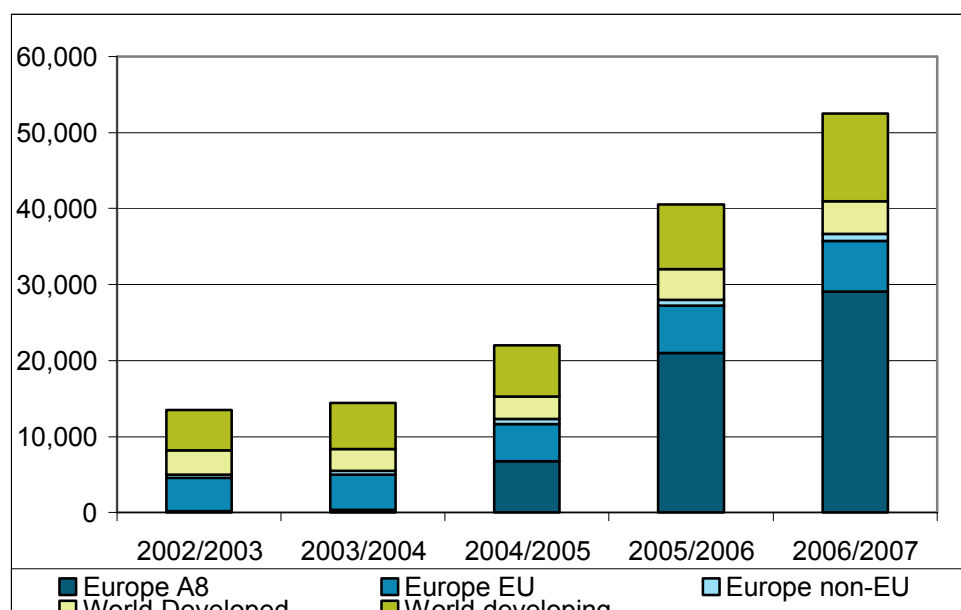


Notes on source data: Numbers are based on 100% data from the National Insurance Recording System (NIRS)

Country of Origin

The influx of migrants from the A8 States to Shetland, post EU expansion, is clearly evident. From 2004/05 to 2006/07, three in every four NINo registrations in Shetland to non-UK nationals have been to incomers from one of the eight East European accession states. This proportion is greater than the proportion of A8 nationals registering in Scotland overall, where one in every two NINo registrations to non-UK nationals was for those from the accession states.

Figure 11 Country of Origin of NINo Registrations for overseas nationals to the Shetland Islands 2002/03 to 2006/07



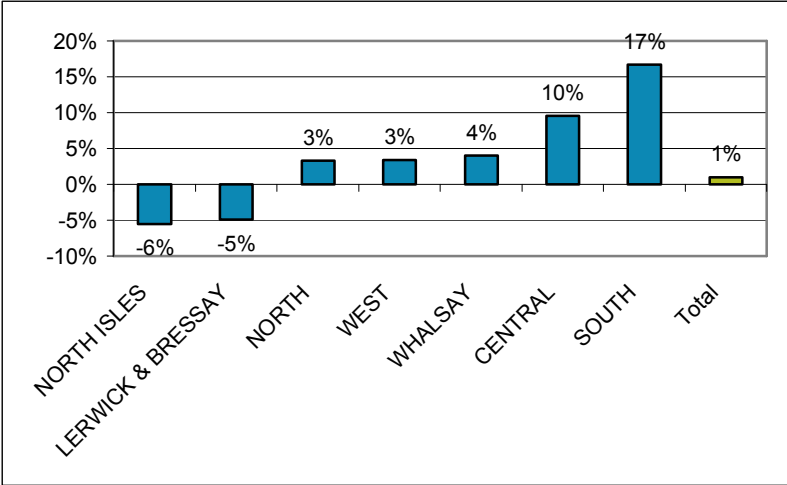
Notes on source data: Numbers are based on 100% data from the National Insurance Recording System (NIRS)

3.2 Changes by locality

As outlined previously, one significant feature of population change across the Shetland Islands has been the shifting patterns of demand identified through different data sources. We have looked at information from our survey as well as data from school rolls, NHS registrations and housing completions to try to model what drives these patterns. These are also supported by interviews with service providers and other stakeholders.

Broadly there has been a shift in overall population from outlying areas (particularly the North Isles of Yell, Unst and Fetlar) to the areas within commuting distance of Lerwick. However reviewing the data suggests there are more subtle differences in these patterns perhaps related to age and economic situation. Overall the population has seen a slight increase of 1% over this time period with the biggest increases taking place in the South and Central parts of Mainland. There were also moderate population increases in the North and West Mainland and on Whalsay. However there have been population declines in the North Isles and in Lerwick and Bressay. The latter is likely to be due to limited sites for new housing within the main town which has led to major house-building focusing on the Cunningsburgh/Quarff area and in Scalloway. However the population decline in the North Isles is fuelled by out-migration underpinned by limited job opportunities.

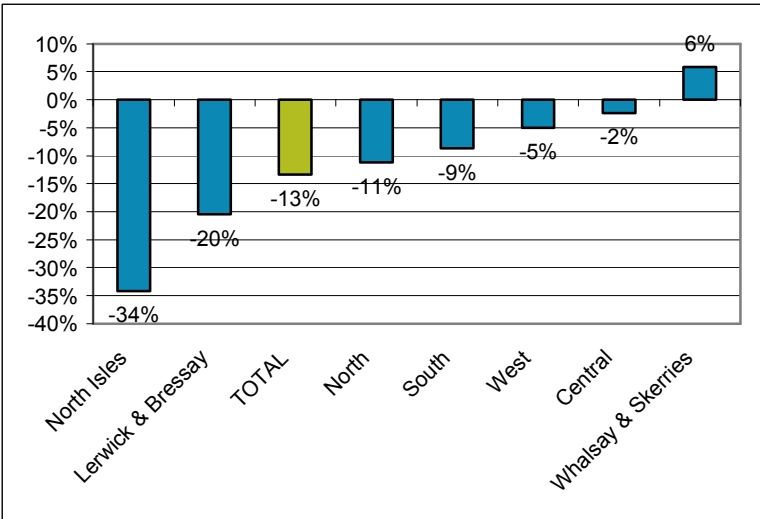
Figure 12 Estimated population change 2001 to 2007 by area



Source: Derived from NHS Registration and School Rolls data (SIC, 2007)

These population shifts have had an impact on the primary school rolls within different areas as Figure 13 shows. For example the primary school rolls in Lerwick have dropped by around 155 since 2001 suggesting that families with young children have been moving out. And in the North Isles there has been a drop of a third in the number of children at primary school. Whalsay & Skerries is the only service planning area that has seen an increase in the numbers of primary age children since 2001. This increase is due to Whalsay rather than Skerries where the roll has dropped from 4 to 3 children. However the overall pattern of declining rolls suggests that those moving to other parts of the Mainland are either older families or those without children.

Figure 13 Change in Primary School rolls 2001 to 2007

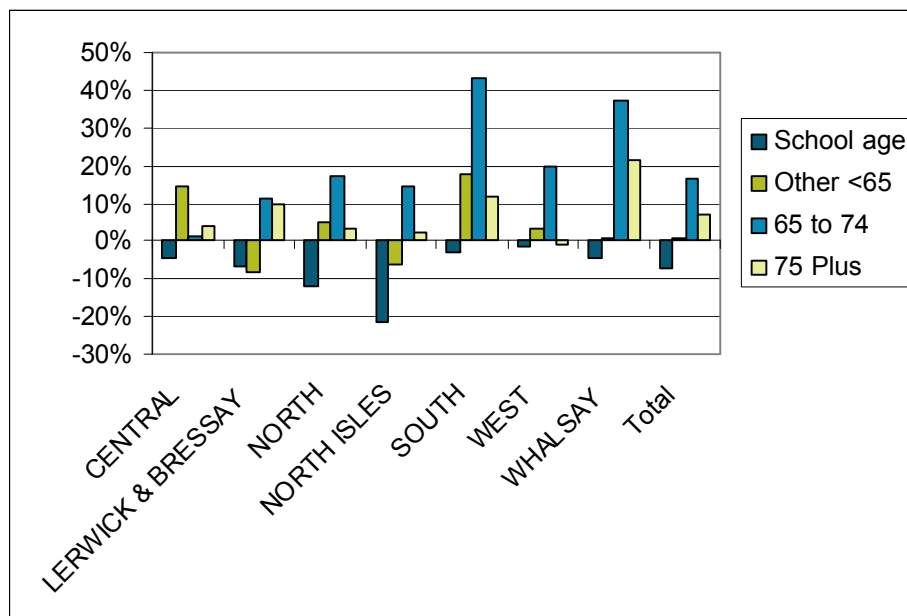


Source: SIC 2008

The age patterns of population changes identified through NHS registrations suggest that people of working age are moving mainly into the South and Central areas of Mainland. This is supported by both anecdotal evidence from our interviews and recent house-building data. However there appears to be a higher proportion of older people moving into the North and West of Mainland and an ageing profile

among the existing population as Figure 14 shows. However the South has also seen a significant increase in the number of elderly people in the population. In Whalsay there are less significant changes to the working age population but a major increase in the number of older people. This suggests the population here is stable but ageing.

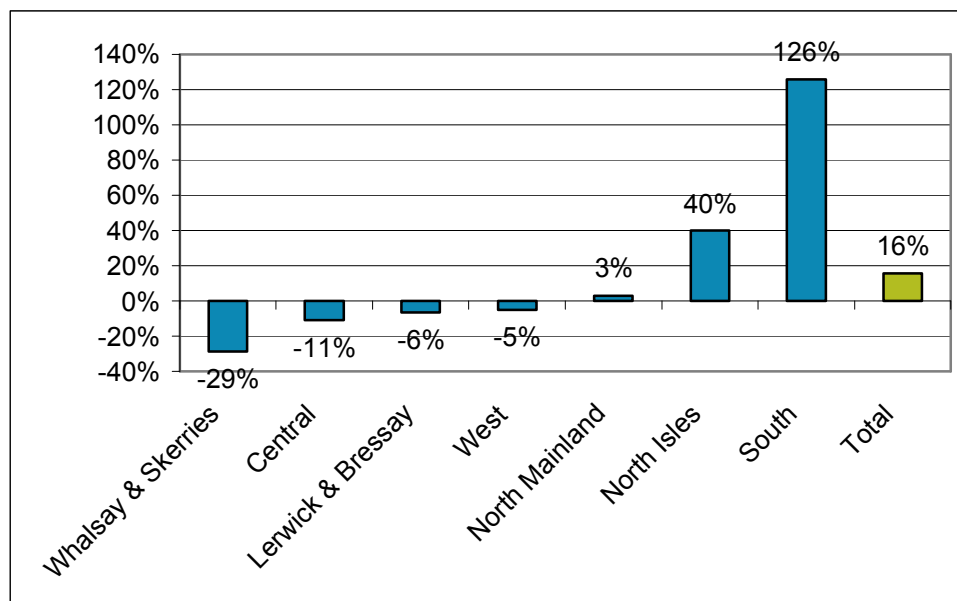
Figure 14 Population changes 2001 to 2007 by Service Planning area



Source: SCROL, 2001 census data, NHS registrations and school rolls (SIC)

Figure 15 clearly shows that a significant increase in house-building in the South Mainland area has underpinned the population increases identified. Although the house-building rate on the North Isles also increased, the numbers involved are very small and variable. In all the other areas apart from the North Mainland there was a decrease in building activity.

Figure 15 Changes in housing completions 2001-2007 (3-year rolling averages)



Source: Shetland Islands Council Planning 2007

It is estimated that over 30% of Shetland's population lives in Lerwick (SIC, 2006a, p.11), which is the main service centre and where most public administration is delivered from. And some 59% of Shetland's jobs are located in the capital (Community Profile, Lerwick & Bressay). The trend towards a centralised population in Lerwick, and in communities within a 15-20 minutes commute to Lerwick, is set to continue (Central Mainland Community Profile). Population projections indicate a significant decline by the year 2011 in all Shetland communities, except Lerwick and the villages within easy commuting distance to Lerwick (SIC, 2000). This suggests a further centralisation of population, which is seen as a threat to sustaining local services, such as schools and shops, in more remote areas (SIC, 2000).

3.3 Emerging trends

Our research points to several factors which are set to become more prominent over the next ten years and are outlined below.

Lifestyle migration to increase as a share of in-migrants

Stakeholders are concerned with the declining employment opportunities at Sullom Voe. Since 2001, employment has declined from over 1,000 employees to 712 in 2006. Some stakeholders felt that this decline in economic opportunities in the oil industry may lead to lifestyle in-migration becoming more important and mean a change in the overall makeup and motivations of in-migrants.

Future supply of economic in-migrants uncertain

The future of the supply of migrant workers is uncertain. Currently tightening immigration legislation is set to increase the barriers to in-migration and this is likely to have a greater impact on more peripheral parts of the country. Also, the economic climate in the UK is not as attractive as it was in 2004-6 after A8 accession. UK Treasury growth forecasts for 2008 are 1.75-2.25%. This sharply

contrasts with projections for the countries where Shetland's international in-migrants have come from:

- Poland - 5.5%
- Latvia – 5.8%
- Lithuania - 6.5%

An improving economic climate in these countries may encourage workers to return to their native countries.

Continuing movement of population towards Greater Lerwick

A movement of population towards “Greater Lerwick” is clearly evident with population declines in peripheral areas like the North Isles – where 6 out of 10 of those born or reared there have left (HA Survey 2007). However, almost 70% of these North Island out-migrants are now living on the Shetland Mainland.

Decline in peripheral areas is also closely linked to economic opportunities. For example, the loss of associated employment opportunities at RAF Saxafoord led to a significant drop in the North Isles population. Overall, there has been a decrease in employment opportunities in peripheral areas and this is explored in the next chapter.

Figure 16 (should be read from left to right) shows this movement in greater detail, highlighting:

- The loss of those who were born or brought up in peripheral areas to the Central and Lerwick & Bressay areas as adults; and
- The importance of in-migration in maintaining population numbers generally but particularly in the North Isles and North and West Mainland.

While areas like the North Isles and the South Mainland appear equally reliant on in-migrants from outside the Islands, anecdotal evidence highlights that in-migration in peripheral areas like the North Isles is more likely to be by older people.

Figure 16 Changes in population by locality

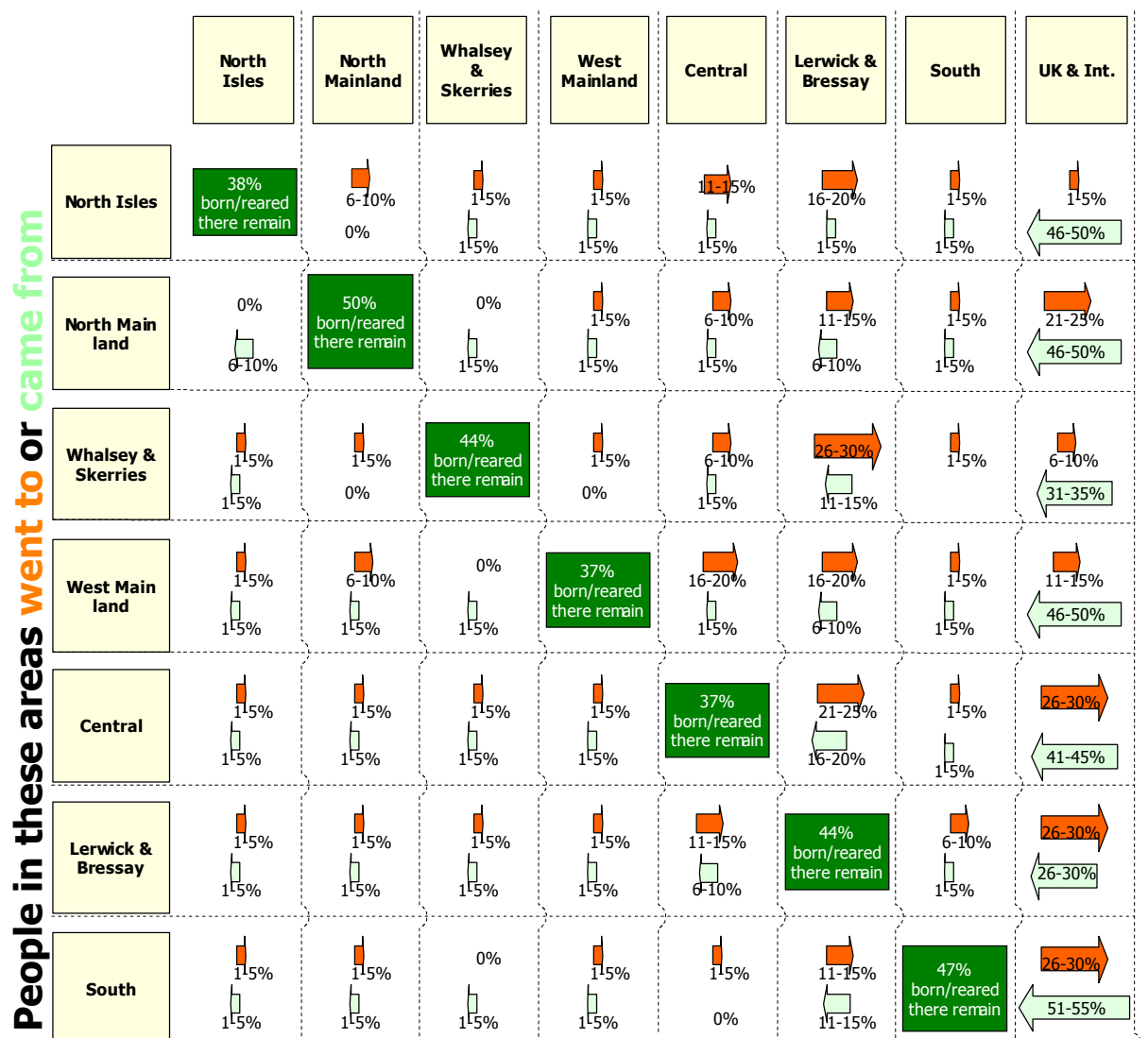
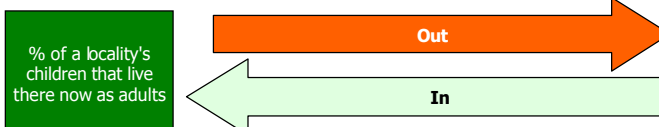


Diagram shows locality where those born and brought up on the left hand side. Red arrows highlight the loss of these people and to where. The green arrow shows who is replacing them and where they are coming from.

For example, the North Isles lost 16-20% of people who were born or brought up there, to Lerwick & Bressay. 46-50% of its current population have come from the UK and international locations



Note: This is based on 1,570 responses by adults of all ages to a web-survey. It should be taken as indicative of their experience rather than as an accurate picture of the whole population

3.4 Conclusions

In the past 20 years, Shetland's population has declined by 3%. Since the 2001 Census there has been a significant rise in the percentage of the population aged over 50. Both these trends are set to continue. This ageing population combined

with out-migration of 20-44 year olds presents a considerable challenge for community planning partners.

International in-migrants, mostly aged 18-34 and from Eastern Europe, have increased in importance, particularly since 2004. However, the future supply of these is at best uncertain. Other in-migrants have tended to be older, particularly those who move to outlying parts of the Islands for quality of life reasons.

There has been a clear shift in overall population from outlying areas (particularly the North Isles of Yell, Unst and Fetlar) to areas within commuting distance of Lerwick. Lerwick itself has lost population – probably as a result of smaller household sizes combined with a shortage of building land. However, the losses in the North Isles are mainly due to out-migration (to the Shetland mainland and beyond) which is driven by limited local economic opportunities. In-migrants of working age are generally settling in areas which are commutable to Lerwick (where 60% of Shetland's jobs are based) such as the Central and South Mainland.

The main brake on this movement towards 'Greater Lerwick' appears to be the availability of land for building on. The South Mainland has seen increases in housing completions as opportunities to develop contract in Lerwick and Central Shetland. While housing completion data in these areas reflects the job opportunities available and downturns reflect land availability, the situation is very different in the North Isles.

While areas like the North Isles have seen a fall in primary school rolls of two thirds, over the past 30 or so years, population loss has been far less dramatic recently (around 6%). This is despite a loss of around 120 FTE jobs in the North Isles. While some residents have out-commuted to work in the Shetland mainland, significant numbers have left the Islands (only 38% of those born there live there now). Older in-migrants with no dependent children have stabilised the population numbers for now – but these provide a challenge to the longer term sustainability of these communities.

4 Drivers of population change

This section explores the drivers behind population change including jobs and career issues and infrastructure issues such as housing and transport. It is drawn from the interviews with stakeholders but supported by the review of migration literature and policy documents.

4.1 Drivers of population change

Our interviews with stakeholders identified several key factors that have driven population change historically and continue to influence the population. These can be grouped into:

- Economic factors
- Educational Opportunities
- Level of dependency
- Housing options
- Transport and infrastructure
- Quality of life issues

4.2 Economic factors

Job opportunities

The economy underpins the demand for jobs which in turn drives population change. In the past, booms in population have occurred linked to fishing and the oil industry. Other opportunities have come through the RAF base at Saxaford. However the flip-side of these booms is the negative impact on population when these opportunities subside.

Good jobs on the decrease outside the public sector

One interviewee has suggested the higher skilled professional oil jobs available are already dwindling. Employment survey data (2003 and 2007) supports this and suggests sectorally that between 2003 and 2007 oil terminal employment contracted by 280 FTE jobs (56%). This has broadly affected men and women equally. But there have been decreases outside this in related sectors (and what might be considered good jobs) with business services jobs contracting by around 50 over the same time period (9%).

Since the direct opportunities from oil exploration and processing have started to decline the public sector employment created on the back of it has become more significant. Many interviewees identify a high-level of dependence on publicly funded services and jobs. And these well-paid job opportunities have helped to sustain population levels and attract back some of those who have left the Islands for education.

Gender issues in recent economic changes

The employer survey found that recent employment changes have had a specific gender component. While male full-time jobs increased marginally (by 25 jobs) between 2003 and 2007, female full-time jobs fell by 290.

Construction and the public sector have shown substantial growth in employee jobs. However, only 2 of the 156 additional full-time construction jobs are occupied by females. In contrast, the growth in public administration jobs has resulted in a growth in female employment. Some 580 more women are employed part-time and 94 more full-time in this sector compared to 2003, which would appear to offset similarly sized losses in social work and health jobs.

Catering is the third biggest employment growth sector since 2003 (+101 FTE jobs) and women account for most of these new jobs. This is not usually regarded as a sector that has good retention rates or progression opportunities. While this has helped to offset losses in jobs in business services (50 fewer women working full-time), the quality and attractiveness of these jobs is likely to be far lower to graduates.

Peripheral areas losing jobs

The closure of the RAF base at Saxaford has had a significant impact on the local economy of Unst. The loss of population and job opportunities has been disproportionate. Between 2003 and 2007, it lost 35% of its full-time equivalent jobs.

Other important employers in peripheral areas have also been in decline with, for example, fishing, aquaculture and textiles and crafts having 145 fewer FTE jobs in 2007 compared to 2003. The accommodation sector also has 79 fewer FTE jobs in 2007 compared to 2003. Much of this must be outside Lerwick with Shetland in Statistics (2007) highlighting the number of bedspaces in B&Bs, hostels and hotels outside Lerwick have all fallen significantly over the last ten years.

Whalsay has established itself as the focus for the fishing industry in Shetland. Between 2003 and 2007, full-time equivalent jobs on the Island grew by 77 or around a quarter. Women benefited most from this with female part-time employment increasing from 96 to 147 and full-time employment increasing from 32 to 52. Also, with a strong community and relatively healthy housing market it has managed to retain its population to a greater extent than many other parts of the Islands.

Perhaps related to this is the issue of trying to influence population dispersal through developing growth settlements outside Lerwick. Efforts were made in the past to improve services (in settlements like Brae) by developing more self-contained settlements. One stakeholder identified that the Council previously tried to devolve some jobs to these areas to help support this policy but that this was not very well-resourced and therefore not very successful. While the Council can influence housing development it is the availability of employment opportunities that is the biggest barrier to promoting growth centres outside Lerwick.

Future job opportunities may increasingly be low skilled

The large number of people attracted to the Islands during the Sullom Voe development will soon be moving towards retirement. However it appears their sons and daughters will not have the benefit of similar job opportunities.

With many younger more skilled people leaving the Islands for education many lower skilled jobs are now taken on by migrant workers. Many sectors such as fish-processing and hospitality rely on migrant workers (currently mainly from Eastern Europe) to sustain their workforce. But the continuing supply of these looks, at best, uncertain.

Limited opportunities for women or for both partners in a couple to secure jobs that match their aspirations is becoming an increasing issue. There are several reported

instances of one partner not being able to secure an appropriately skilled job resulting in both partners leaving the Islands.

Education opportunities

Levels of educational attainment in Shetland's schools are very high and because of this a high proportion of school leavers go into higher education. Our focus groups with younger out-migrants identified an expectation for most young people that to succeed they need to move on to university on the Scottish Mainland to complete their education. And this message is put across strongly by teaching staff. The local FE college provides few opportunities to keep more skilled young people in Shetland and focuses on the needs of local employers such as the care sector.

However educational opportunities can also be a positive factor in driving in-migration, with the North Atlantic Fisheries College attracting significant numbers of skilled staff and students to the Islands. The College has also attracted migrant workers. Future courses at Shetland College specialising in knitwear, creative industries and music might also help to attract a wider range of postgraduate and skilled students to live in the Islands.

Dependency

One issue that interviewees have often highlighted is the level of economic dependency that exists on public sector funding and jobs. One senior stakeholder estimated that half of all jobs were either directly or indirectly supported by the Council. The 2007 Employer survey found that 42% of jobs were in public administration, education and health – an increase from 40% in 2003.

Other interviewees thought the level of service provision supported by the Council had edged out private enterprise and undermined the local business base. Some thought that those who wanted to develop an enterprise found it easier to do so outside the Islands. It was also thought the jobs made available from the oil industry and the RAF base had taken people away from traditionally more enterprising sectors such as crofting and fishing. And some skilled fishermen on Whalsay have left the industry to work on the publicly funded ferries to find a more secure income.

The level of local public expenditure and the high levels of service that this has funded have created an expectation of provision that has perhaps stifled personal and community initiative.

4.3 Infrastructure issues

Housing

Housing opportunities are closely associated with the economy and population change. Average household sizes have become much smaller over the past decade and this trend is forecast to continue^{1[1]}. This, combined with an increase in holiday or second homes, is making housing more difficult to access for many people. Housing demand has shifted significantly towards the Greater Lerwick area so existing patterns of supply do not always match this. The influx of migrant workers has also put a strain on the private rented sector for housing.

Limited availability of rented housing prevents young people moving back to parts of the Islands where they would like to live. However there is an ongoing debate about

^{1[1]} SIC Housing Market Forecast

whether housing development can promote economic growth or whether housing will simply follow jobs.

Transport & Infrastructure

Transport is particularly important for connecting economically active people to jobs. So transport patterns do influence population levels in different parts of the Islands. Some communities such as Mossbank for example have experienced a high turnover of population because, although there is available housing, public transport does not provide adequate connections to Lerwick for working people. So bus and ferry routes and timings take on greater importance in determining which areas are effectively commutable from Lerwick. Transport is also critical for those seeking to access jobs in the North Isles and North Mainland.

4.4 Social

Quality of Life

Many of the drivers of in-migration relate to the quality of the environment and services available in Shetland. However, several stakeholders highlight that the things which attract people to live there – the environment and safety – tend to attract older households in their 40's or 50's. Most of those who choose to move to Shetland have had several previous visits either as tourists or through having friends or relatives who live in the Islands.

These people are also attracted by the high level of services that are available and the sense of community. Many of these lifestyle in-migrants are financially independent and are not therefore fully economically active. Most have either no dependent children with them or have older children.

4.5 Conclusions

It is clear from our research that employment opportunities are critical to population sustainability. The decline in job opportunities in some of the more peripheral parts of the Islands is accelerating the drift in population towards Lerwick where most services and employment opportunities are focused. It appears that good quality job opportunities are increasingly concentrated in Lerwick and that many of these are within the public sector. Recent changes to the employment pattern across the Islands suggest the overall number of jobs taken by females has decreased and that this has been particularly within the private sector. It is becoming more difficult for both partners in a couple to find suitable job opportunities that match their skills and aspirations.

Shetland's schools provide a high standard of education and there are expectations that pupils will go on to higher education. This means that most qualified young people leave the Islands for education on the Scottish mainland. At the same time employers are experiencing problems in recruiting staff for some lower skilled jobs and are becoming more reliant on migrant workers. This growing mismatch in the labour market needs to be addressed if the economy is to be sustained.

It appears the jobs and services offered by the public sector in Shetland have limited both the motivation and opportunities for private sector enterprise. There is a suggestion that many potential entrepreneurs have had to leave the islands to establish their business. The level of public sector provision may also have inhibited growth in community sector provision which is far less evident than in other parts of the Highlands and Islands. However growth in the private and community sectors

will be necessary to ensure the Shetland economy remains sustainable in the medium term.

Access to housing is an important factor that contributes to population change. The drift of population towards greater Lerwick has resulted in:

- More properties in outlying areas becoming second or holiday homes; and
- A pressure for new housing within parts of the Central and South Mainland.

5 Experiences of population change

This section examines the motivations and experiences of four key groups: stayers, out-migrants, in-migrants and returners. It assesses and compares the characteristics of each of these groups and looks at the motivations behind their decision to stay, leave, return or migrate in. It also examines the positive and negative experiences of each of these groups and in particular, those that leave and are unsure they will return. These findings come from a survey of current and past residents and focus groups in the Islands and with those who have left.

Gathering data on motivations and experiences

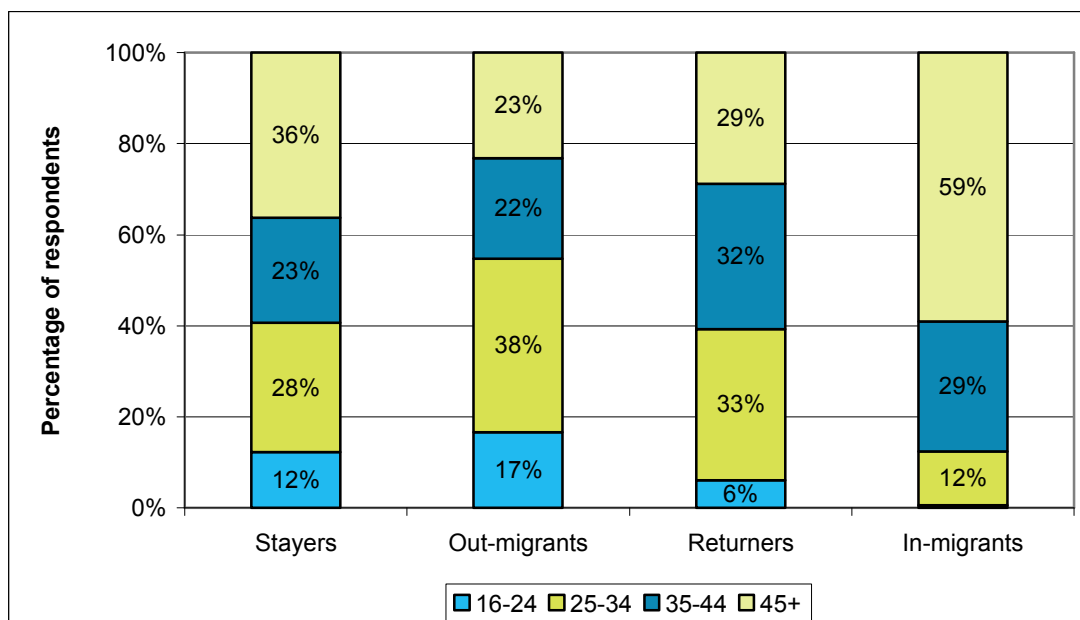
Our survey was distributed randomly to those living or who had lived in Shetland. While responses are unlikely to be representative of the population as a whole they provide a useful insight into some of the characteristics and motivations of different groups. Further insights were gained through a series of focus groups with Islanders and those who were brought up in Shetland and now live in the Central Belt.

Characteristics of stayers, out-migrants, in-migrants and returners

Figure 17 shows the age range of respondents within the different sub-groups. Noticeable features include:

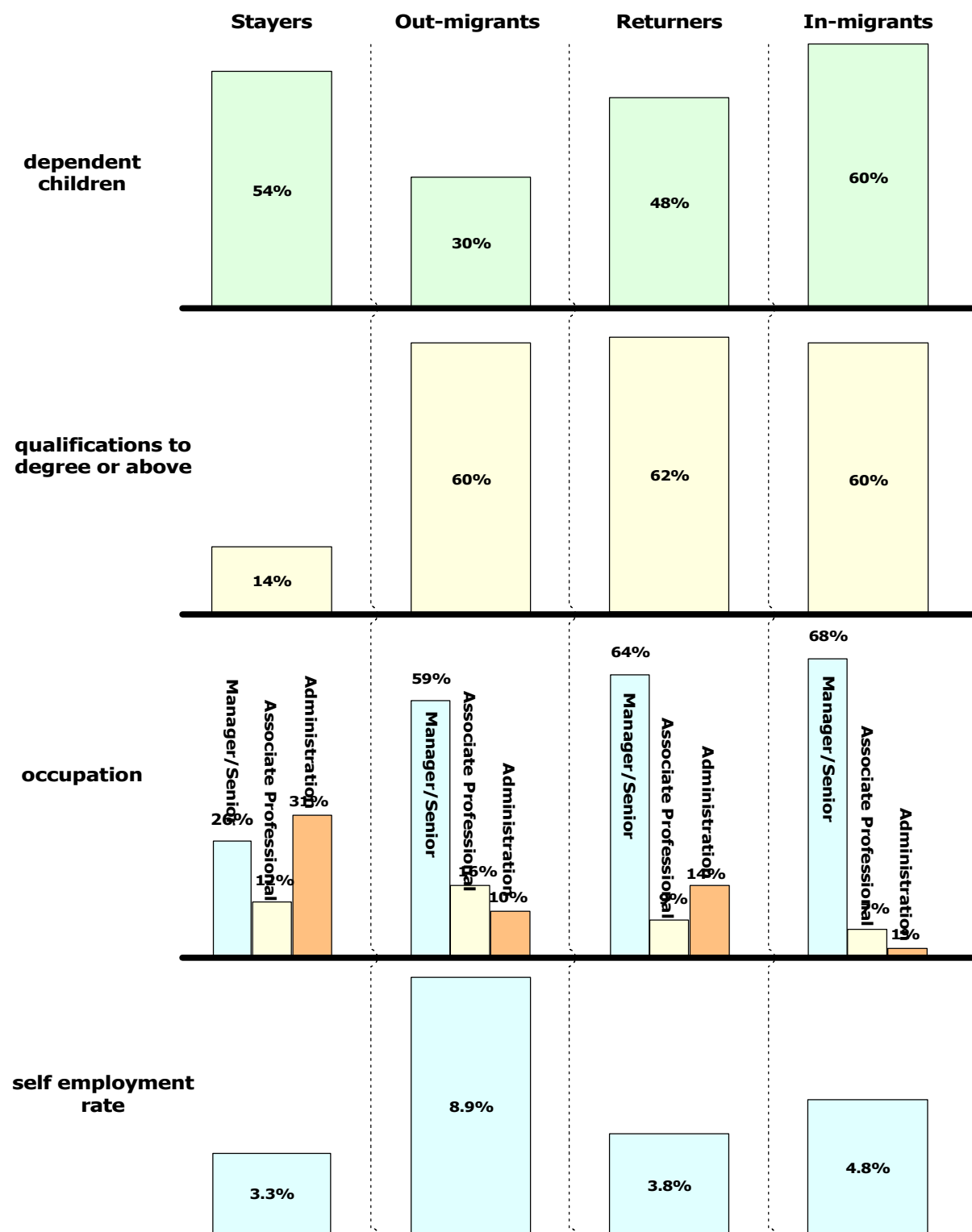
- The younger age profile of out-migrants, with the highest proportion under 44; and
- The heavily weighted age range of in-migrants towards the 45+ age bracket.

Figure 17 Age profile of different groups



Source: Hall Aitken e-survey 2007, n=1,357

Figure 18 Family and work characteristics of the groups (25-44 age group)



Source: Hall Aitken e-survey, Stayers, n=152, Out-migrants, n=100, Incomer, n=188, Returners, n=212

As these groups were at different life stages and their characteristics (work, family etc) were likely to reflect this, we examined several characteristics for the 25-44 age group. We chose this age group to give a comparison among the key working age

populations while including a sufficient number within each sub-group. Figure 18 shows some of the specific characteristics in each of the categories.

There are notable differences in the personal characteristics of these stayers, out-migrants, returners and in-migrants when comparing 25-44 year olds. In-migrants and returners are more likely to have higher qualifications and higher skilled jobs than stayers which backs up findings from other strands of our research.

In-migrants were most likely to be working as professionals or senior managers, with 68% of respondents identifying these occupations. And the proportion of returners with higher level occupations was also high at 64% suggesting that the availability of good quality and well-paid jobs is a key driver for in-migrants and returners.

There are also higher self-employment rates among out-migrants, almost twice that of Shetland-based groups. This suggests there is some basis for the view that those wishing to set up a business often do so outside Shetland.

There are lower proportions of out-migrants with dependent children compared to Shetland-based groups. This perhaps points to the presence of children (or the desire to start a family) as a factor in returning or migrating to Shetland. In-migrants in our survey were more likely to have dependent children than returners – although this may be simply a factor of the age profile within this group.

5.1 Stayers' motivations and experiences

Stayers motivations

Just over half (51%) of stayers have considered leaving at some stage. Around a tenth (11%) of this group have not made up their minds about whether to leave or stay. Around 6% of stayers feel they will probably or definitely leave.

Motivations to stay appear closely related to quality of life and family considerations. Although based on relatively small groups the survey results give some pointers to motivations. Figure 19 shows the most influential factors identified in helping individuals in their decision to stay and these were:

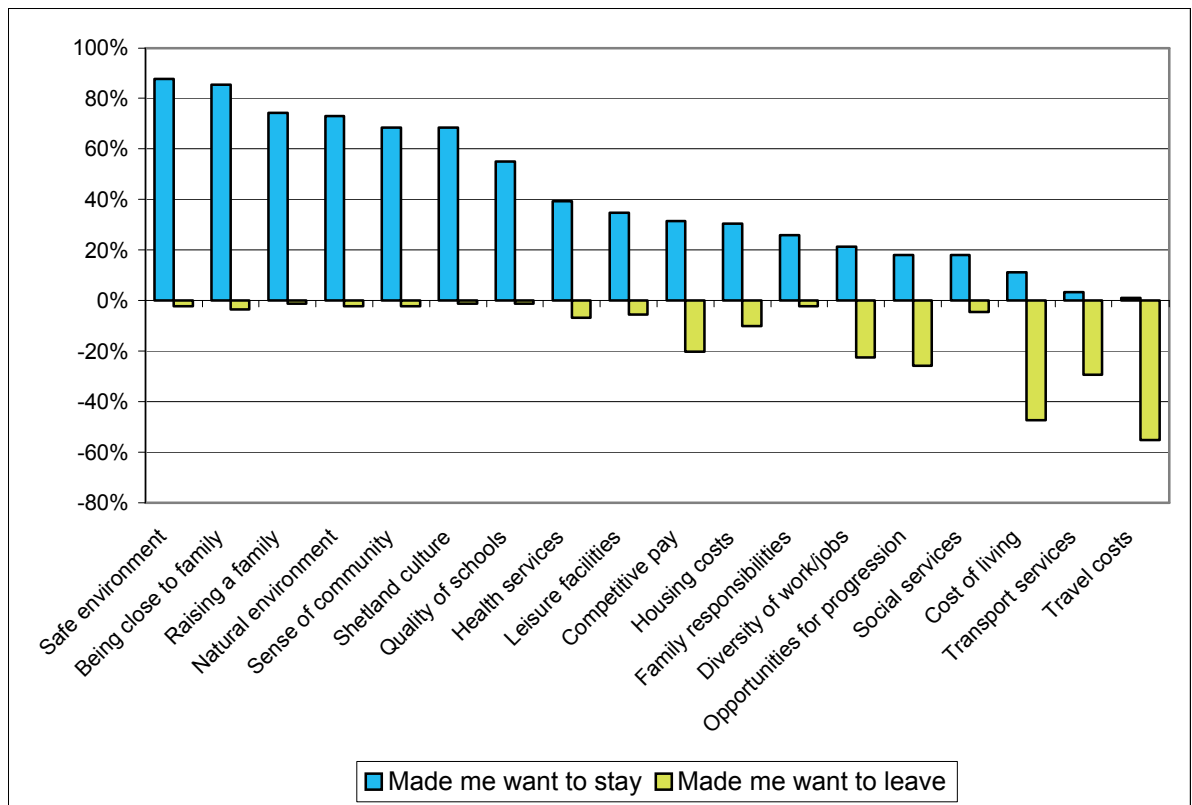
- A safe environment;
- Being able to be close to family;
- Raising a family; and
- A natural environment.

For those that considered leaving but decided to stay, family and relationships were crucial with decisions shaded by:

- Meeting someone- a partner;
- Caring for someone – a parent or relative being ill at the time of the decision; and
- Considering starting a family – having children or about to have children and believe that Shetland is a better environment for them.

This was supported by several focus group participants who identified that many of those who did not leave were looking to start a family rather than leave the islands to pursue a career.

Figure 19 How important were the following factors in influencing your decision to stay in the Shetland Islands?



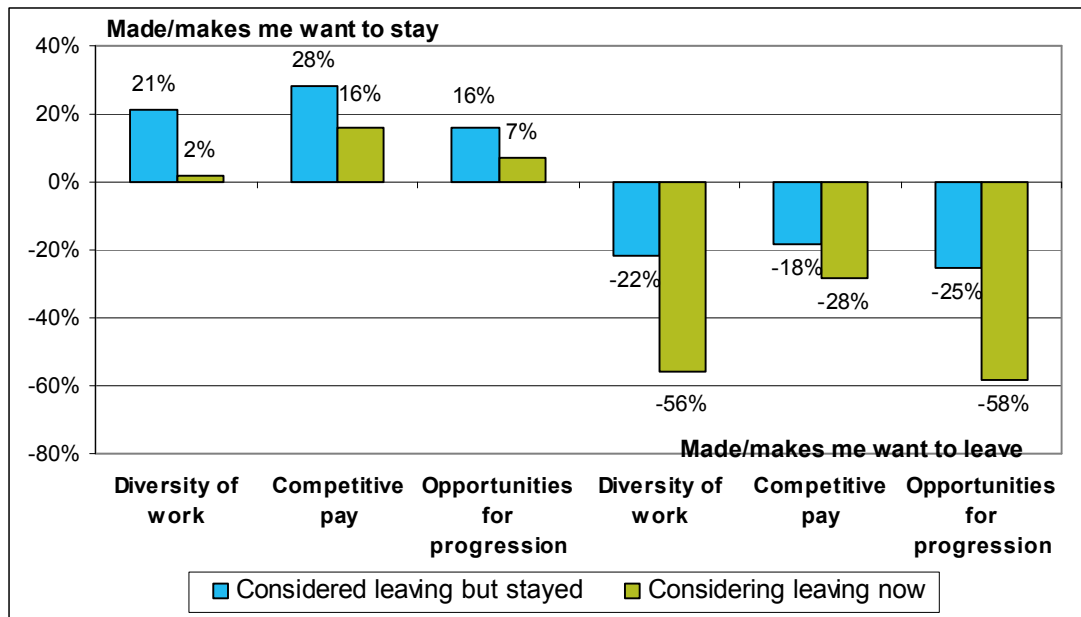
Source: Hall Aitken e-survey, n=89

Stayers: jobs and careers

Figure 20 shows how those who considered leaving and stayed and those considering leaving now view job and career issues. It shows that diversity of work and opportunities to progress are more important issues for those who are considering leaving now. This reflects many factors, not least that those that do leave may be more likely to place a higher priority on work and careers. But it may also reflect a recent decline in quality/choice of jobs.

Competitive pay is less of an issue for those considering leaving now compared to issues of diversity and progression opportunities. This perhaps confirms what the Glasgow focus group perceived as the “catch 22” situation of working in Shetland – the pay is good but the choice of work is limited.

Figure 20 Aspects of career that made stayers want to leave or stay



Source: Hall Aitken e-survey, n=100 considered leaving but stayed and 57 considering leaving now

Stayers: views on transport

For those who are considering leaving now, transport featured prominently in comments:

- The desire for greater and cheaper mobility that comes from living on the mainland – such as being closer to children who have left and being able to travel abroad cheaply; and
- Difficulties in public transport generally within Shetland.

Stayers: views on housing

Housing appeared to be less of an issue for stayers responding to the survey and, if anything, was a motivating factor to remain in Shetland. Similar proportions of those who decided to stay and those who were considering leaving (30%) felt it was a factor which made them want to stay. Only one in ten (10%) felt it was a factor that made them want to leave.

This may reflect some discussion at one focus group. Participants noted that those that do stay may be in a better position to inherit, own or build a home than immigrants or returners. Also, they may have built up savings through having a reduced cost of living in their parental home. This perhaps highlights how important access to housing is in trying to retain people on the Islands.

Stayers: views on education, health and services

The views of those deciding to stay and those who were considering leaving on public services were generally positive. Those that are considering leaving now are more likely to cite Shetland's public service as a positive aspect than those who

considered leaving but decided to stay. The negativity attached by stayers (who have or are considering leaving) to some of the public services seems to be around:

- Lack of specialist services in health and difficulties in getting appointments at health centres and with dentists;
- Young people not having enough to do; and
- related concerns about drugs and alcohol misuse.

The concerns for more activities for teenagers appears to be related to concerns over alcohol and drugs so young people are not “hanging around the street drinking” or being exposed to an “influx of heroin”. One young stayer (Lerwick, 18) felt that:

‘The 16-18 age group get bored. For them, it’s the worst living in Shetland, there’s nothing for them to do (other participants agree). There’s a huge underage drinking culture and they get excluded from events. It’s a critical age, when decisions are made about leaving, staying and even returning.’

While the sports facilities and music culture are regarded as vibrant, some respondents felt that if young people were not interested in ‘music and sports’, then they would perhaps feel left out.

Stayers views on Island life

The “Shetland culture” was seen as a positive influence on the decisions of six in ten who considered leaving but decided to stay and a similar proportion of those considering leaving. Sense of community was also cited as a positive influence by similar proportions of those who decided to stay (65%). But only around half of those who are considering leaving now felt it was a positive influence on their decision.

5.2 Out-migrants’ motivations and experiences

The out-migrants group who responded to the survey were largely over 25 with 60% aged 25- 44. A majority of those who left Shetland are in employment (71%) and either have or are working towards a degree, postgraduate qualification or professional qualification (70%). A smaller proportion of out-migrants are in full-time further or higher education and just under 10% are self-employed.

Out-migrants - Motivations

A fifth of out-migrants wanted to stay but felt they had to leave, while for around four in ten it was ‘a hard decision’ and for a further four in ten, they had always planned to leave. Between a quarter and a third of out-migrants identified health, leisure, social services and housing as factors that made them want to stay.

The focus group of individuals who have left Shetland were a mix of incomers who have left again and people born and brought up in Shetland. The younger ones among the latter group left to go to university and graduated in the last few years. Some graduates had gone back to live in Shetland again after they completed their degree. But they left again for different reasons – either their partner didn’t like living in Shetland or they left for better job opportunities. All of them could imagine living in Shetland again.

Two of the focus group participants were not originally from Shetland but moved there for their jobs – a Church post and a job with a Government agency. The natural environment was a key driver for these decisions.

All out-migrants feel deeply rooted in Shetland and several have kept their houses there so they can go back on holidays there or one day move back.

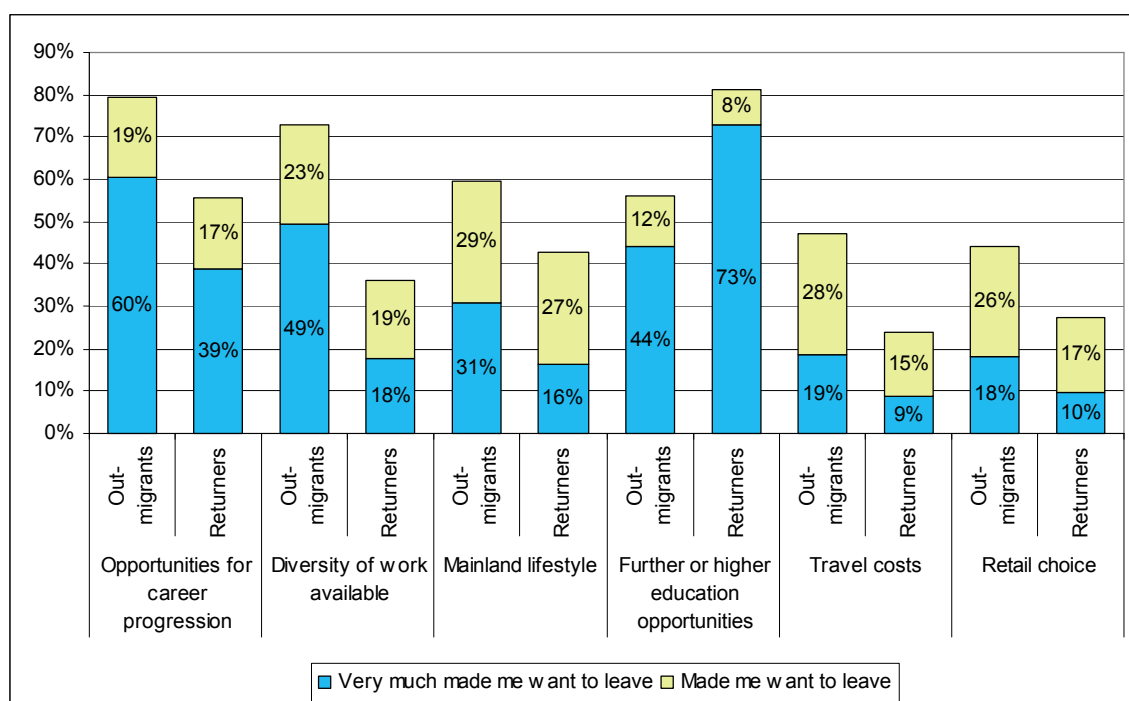
Jobs and education

Figure 21 shows the most common motivations given by out-migrants for leaving and those for people who eventually return. For out-migrants these were:

- Opportunities for career progression;
- Diversity of work available; and
- Mainland lifestyle

also shows the most commonly cited factors for out-migrants differ from those for returners.

Figure 21 Factors that made out-migrants, and returners (when they first left) want to leave Shetland



Source: Hall Aitken e-survey. Returners, n=286. Out-migrants, n=166.

Clearly greater proportions of out-migrants feel that opportunities for career progression and diversity of work made them want to leave compared to those who leave and return. This may reflect that those that do return leave Shetland viewing further or higher education as a means of returning.

Those that remain away from the Islands are also more likely to identify the Mainland lifestyle as a motivating factor for leaving (60% compared with 43%).

Job availability was also a feature of out-migrant survey respondents' comments. One typical response was:

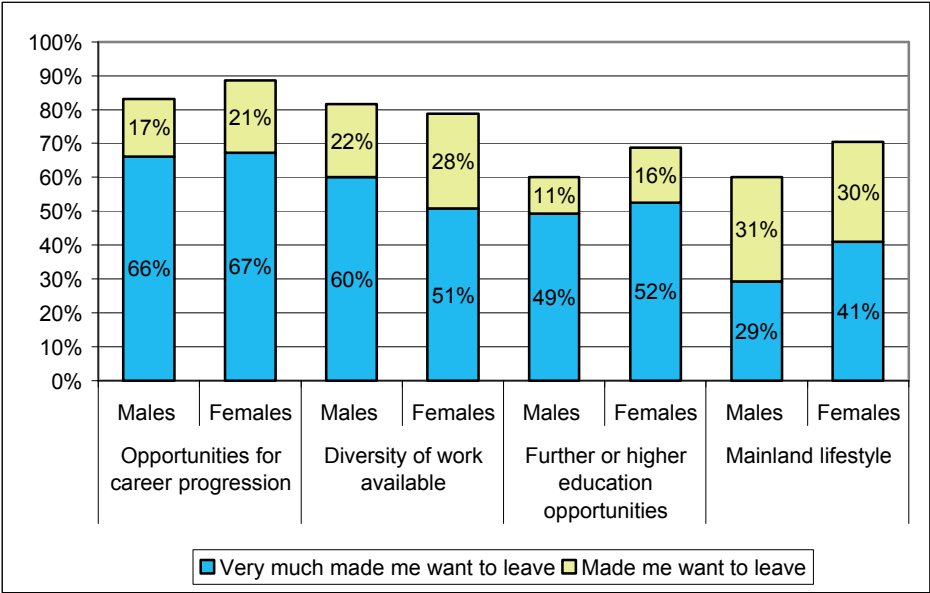
'I am a qualified medicinal chemist. There are very few jobs for people with science degrees. I loved living in Shetland but I cannot have a career there. I also did not feel I would live at home permanently after I graduated.' (Female, 23)

Six of the nine Glasgow focus group participants had worked in Shetland as adults after university. One female out-migrant in the focus group had moved to the central

belt from Shetland as the company she worked for had closed down and she felt that she had to move to find employment. And another woman brought her family to the mainland as there was no opportunity for a promoted position in her organisation on Shetland.

In the survey, greater proportions of female out-migrants compared to men felt that opportunities for career progression made them want to leave. Figure 22 shows that 88% of female out-migrants felt this was a factor compared with 83% among males. Females were also slightly more likely to identify mainland lifestyle as an influencing factor than males.

Figure 22 Factors that made out-migrants aged 16-44 want to leave Shetland (by gender)



Source: Hall Aitken e-survey, n=61

This was an issue raised at our Glasgow group where there was some agreement among mid-twenties females that Shetland was good for pay but less good for careers and progression.

In the survey, a lower proportion of out-migrants cited “further or higher education opportunities” compared to returners. Participants in the Glasgow focus group felt that leaving for university was encouraged by teachers and schools but there was no discussion of other options. Participants criticised this aspect and agreed that ‘nobody asks you what you would like to do’. This may explain that those who do return may be more likely see leaving for higher education as an inevitability but followed by a return.

Relationships that push and pull

The role of partners was important with this highlighted by both focus group participants and survey respondents. And job opportunities for partners were also important. The following reason for leaving is a typical example:

‘I married someone from the Scottish mainland and due to the type of work he did, at that time he would not have been able to continue to work in Shetland’. (Female, 52)

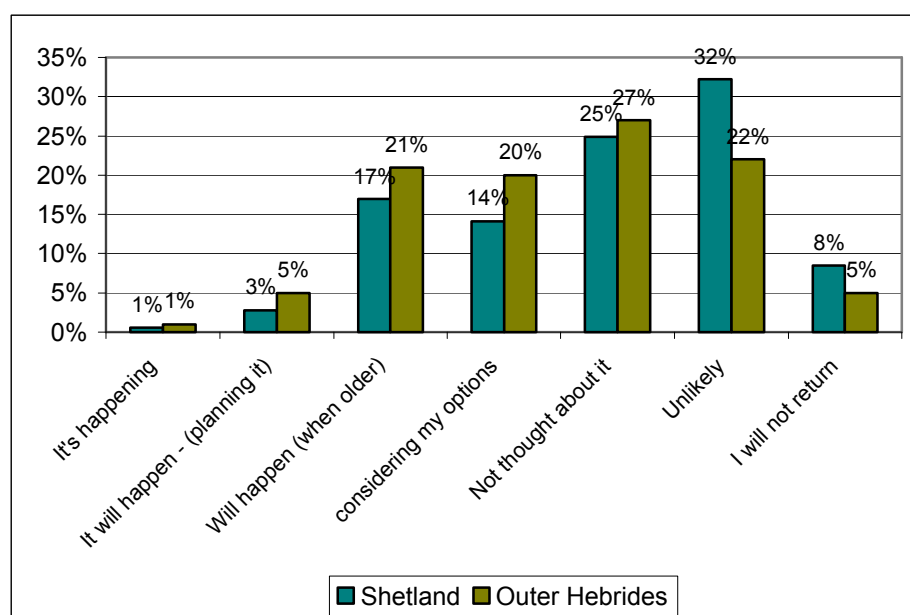
The ability to visit family members was another important factor. One Lerwick participant left partly because of work but also because his grown up children were living on the mainland. This was not uncommon with even one stayer highlighting

that they had hired a holiday home for Christmas on the mainland so the family could spend the holiday period together.

Out-migrants - Likelihood to return

Only one in five respondents who left Shetland is planning to move back, and for two out of five it is either unlikely or they already know they will not return. As Figure 23 shows, out-migrants from Shetland seem less likely to consider returning than those from the Outer Hebrides – where 27% think they will return. The rest – just under 40% - are thinking about it or it is a possibility.

Figure 23 How likely are you to return to the Shetland Islands to live – all out-migrants.



Source: Hall Aitken e-survey, all out-migrants, n=175, Outer Hebrides Migration Study

Out-migrants – views on Shetland jobs and careers

Women in the Glasgow-based focus group felt broadly that jobs available were male orientated. There was a perception that senior jobs in particular were male dominated but this was refuted by one recent out-migrant and there was some agreement that some women were in significant well-paid positions. Overall, participants felt that choice and movement were limited with one explanation being that 'people in higher posts don't move on to create an opening'.

Other perceptions of jobs in Shetland were that people were often underemployed and were prepared to take a secure job well below their capacity in order to return. These people were likely to be those who placed a secure environment and strength of communities above career progression opportunities – and are perhaps less likely to be risk-takers.

Out-migrants – views on Shetland housing

Three of the Glasgow group participants still owned houses in Shetland, two of which were second/ holiday homes (the other being rented out). There was an agreed perception that Shetland was getting 'built-up' and this was seen as a show of confidence in the Islands.

However participants considered that it was easier for those with access to land or family houses to return to the Islands than those who did not. So lack of access to housing was seen as a barrier to a potential return.

Out-migrants – views on Shetland transport

Around 18% of out-migrants in the survey cited transport costs as ‘very much making them want to leave’. Focus group participants agreed that travel costs were among the biggest drawbacks of living in Shetland and that it was often cheaper to travel abroad than to go Shetland. The air discount scheme did seem to help some participants but affordable fares required extensive planning ahead.

Lower ferry costs (as will be available in the Outer Hebrides from October 2008) were seen as an important next step.

Out-migrants – views on Shetland services

Focus group participants generally agreed that:

- Schools are of good quality where pupils get a very high standard of education;
- Leisure facilities are also good; but
- There was a lack of activities for 16-18-year olds – which perhaps results in a more noticeable drinking culture.

They tended to compare these to the UK mainland and felt that services like education were better. One out-migrant working as a social worker felt that care services were significantly better in Shetland compared to the standards she had come across in the Central Belt.

Out-migrants – views on Shetland community and Island life

Focus group participants felt that Island life would offer them:

- An excellent natural environment; and
- An opportunity to be close to their family.

They also felt a strong sense of belonging, which was perhaps even greater than for those who lived in Shetland. Culture, music and creative industries were also seen as bringing confidence to the islands. However, they felt these were threatened by an ageing population and an uncertain future economically.

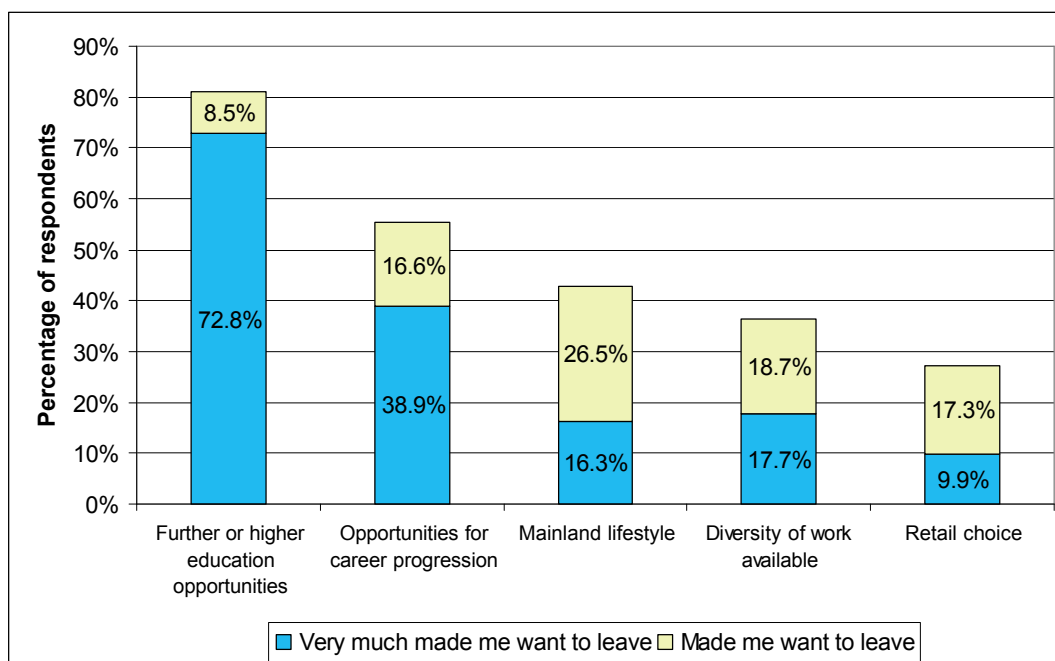
Negative aspects of living on the islands included issues common to small communities – difficulties in maintaining privacy and a perceived conservative environment. Alcohol and an ‘alcohol culture’ were highlighted as issues as well as a perceived growth in a ‘drugs culture’. However the extent to which these issues are any different in Shetland is difficult to say.

5.3 Returners’ motivations and experiences

Returners – leaving Shetland

For more than eight out of ten returners, further or higher education opportunities were one of the main reasons they left Shetland in the first place, with opportunities for career progression also important. Figure 24 shows these factors were by far the most significant. However four out of ten identified the mainland lifestyle as a factor and around a third identified diversity of jobs available. Other factors cited included the role of partners, and also a ‘desire to travel and see the world’.

Figure 24 How important were the following factors in influencing your decision to leave?



Source: Hall Aitken e-survey, n=283

All returners at our focus groups except one had left to go to college or university (mainly Aberdeen or Edinburgh). Three were women and three were men and were a mix of people who had left and returned in the 1980s, 1990s and 2000s. One had moved away because of his father's job when he was younger.

Just over half of returners in the survey (54%) came back aged 24 or less while another third returned aged 25 to 34.

Returners – motivations to come back

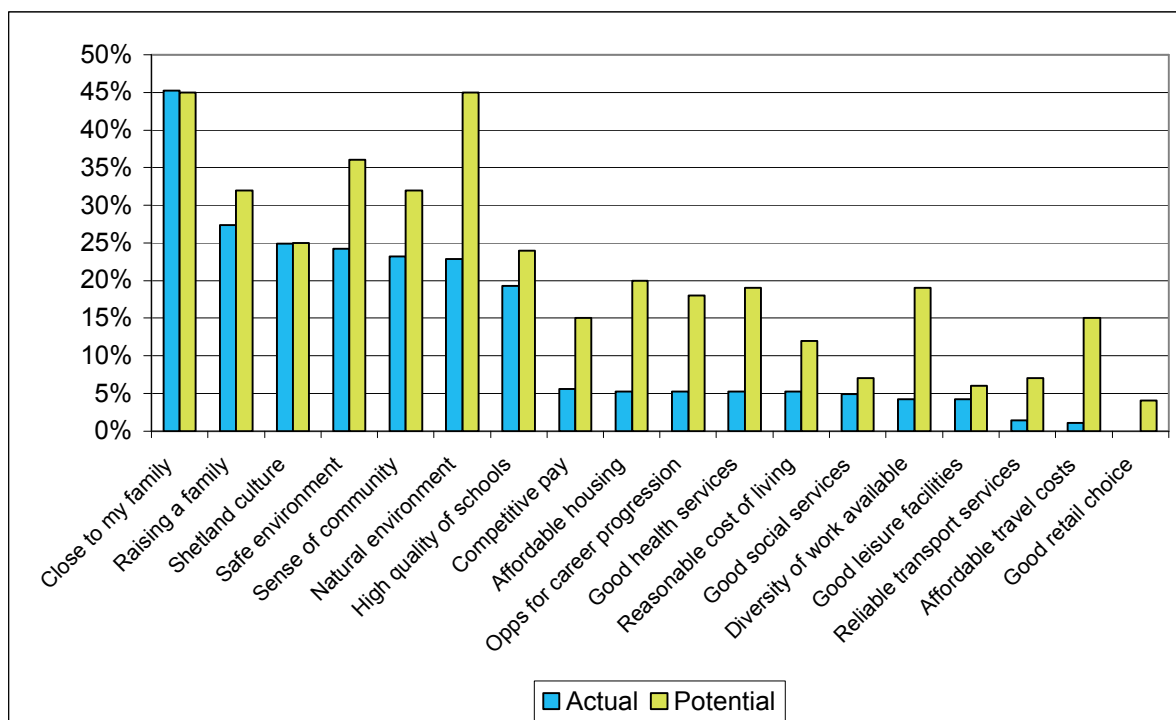
The main drivers for their return centred on:

- Being close to family;
- A love of island life, an 'affinity' with its sense of community; and
- Suitable employment opportunities.

Returners described their historic links with the Islands ('mum's family go back for generations' – Yell returner) and spoke positively of the standard of education they received. Most commonly, people in both the focus groups and the survey commented on motivations around family and relationships.

Figure 25 compares what people who returned thought were 'an essential factor' in their return with what potential returners consider to be 'an essential factor' in a prospective decision to return. For those that have returned, being close to family was important for over half with considerations around the social environment and raising a family also an important factor.

Figure 25 Motivations to return (actual and potential)



Source: Hall Aitken e-survey. Actual, n=285. Potential - out-migrants thinking or considering moving back to Shetland, n=100.

But for some returners, the choice to move back is not arbitrary with some having to fulfil family duties (“tied to family croft”, “family business”, “mothers death”) while other survey respondents stated that they had no choice because of issues around student debt, accommodation and so on.

Potential returners

Comparing actual returners to those who are considering returning, these ‘potential returners’ had different ‘essentials’ for any move back to Shetland. A greater proportion of ‘potential returners’ put an emphasis on:

- *A safe and natural place* - Similar proportions cited being close to family as essential but Shetland’s natural and safe environment were cited by higher proportions as ‘must haves’ in any move home;
- *A place where careers are possible* - A higher proportion considered opportunities for Career progression, diversity of work and competitive pay as ‘must haves’ in any move home; and
- *An affordable place* – a greater proportion of potential returners felt that affordable housing and affordable travel as ‘must haves’ in any move home.

Returners – views on jobs and careers

The returners attending the focus groups already had employment when they returned. However, there was an issue raised about returning in that even if one person has a job, a partner might not have secured one. Returners (as well as in-migrants) highlighted that friends are moving back to Shetland as ‘one job couples’. Returners in the Lerwick focus group felt that it was a necessity ‘everywhere’ that both partners had to work but agreed the opportunities for women were limited and not always suitable or desirable.

The difficulty of finding suitable work for a partner was highlighted by one Lerwick returner:

'I had wanted to come back earlier but my husband could not get a job (trained in broadcast engineering). But when he saw a job as a supervisor in Sullom Voe, he just went for it. It was just a spur of the moment decision.'

One returner in the North Isles had set up his own business and had done so both to pursue his own specialism locally but also, he felt 'to try and change the image of the Islands as being just Sheep'. He had found this challenging as he felt there needed to be a greater 'entrepreneurial mindset' in the Islands'.

Returners – views on transport

Access to transport was identified by focus group participants as an important factor - mainly related to accessing employment opportunities within the Islands. The necessity of car ownership, price of petrol, public transport timetabling within Shetland and the cost of getting to and from Shetland all came up as issues both in the focus groups and in qualitative responses to the survey.

The North Isles businessman felt that getting off Island was expensive and getting to the point where he could get off-Island to a meeting in Glasgow (Sumburgh for 7.30am) required an overnight stay on the Shetland mainland. A West Mainland returner felt that broadband (which was available if somewhat unreliable) offered the opportunity to reduce the need for travel. However, since she worked in project management, it required her to be on-site most days (40 miles away, half on single track roads).

Returners – views on housing

Lerwick returners felt that housing was a crucial issue with 'rents extortionate' and buying now 'too expensive' with one returner also feeling it was more difficult to get a mortgage now. Other participants agreed that these were issues and that young families were likely to be worst affected. However, the returners appeared able to sort out housing through family and friends – something they acknowledged would not be available to in-migrants.

Housing was also felt to be a significant issue in the North Isles, with the business owner feeling that sourcing housing for workers was an extra distraction that he did not need for his new business. Generally, participants felt that housing was available (for example, MoD housing) but was being released slowly to prevent the housing market bottoming out. This was accepted as a necessary precaution as 'equity is the basis for an awful lot of businesses'. However, the standard of rented housing was seen to be low and 'insecure' – a returner in the North Isles highlighted how a teacher moved there for a year and had to change houses three times.

A West Mainland returner felt that North Roe was in decline as not many new houses were being built and little turnover perceived in local housing ("1 or 2 sales in the past few years" and "all 6 council units are full"). Her brother had wanted to move back there, but neither this nor her experience was encouraging him:

'I lived in rented accommodation for 7 years. We had planned to only do that for one year but it took us much longer to make a decision and find something we wanted which we did after four years. But the planning process took nearly 3 years and the cost of house building has doubled. If we'd known the process would take so long...'

Returners – views on education, health and other services

Health services were regarded as good in comparison to other areas and returners drew on their experiences elsewhere (for example, Aberdeen and Edinburgh). However, the availability of dentists was raised as problematic by several participants. Some survey respondents also found it difficult to get health appointments in Lerwick.

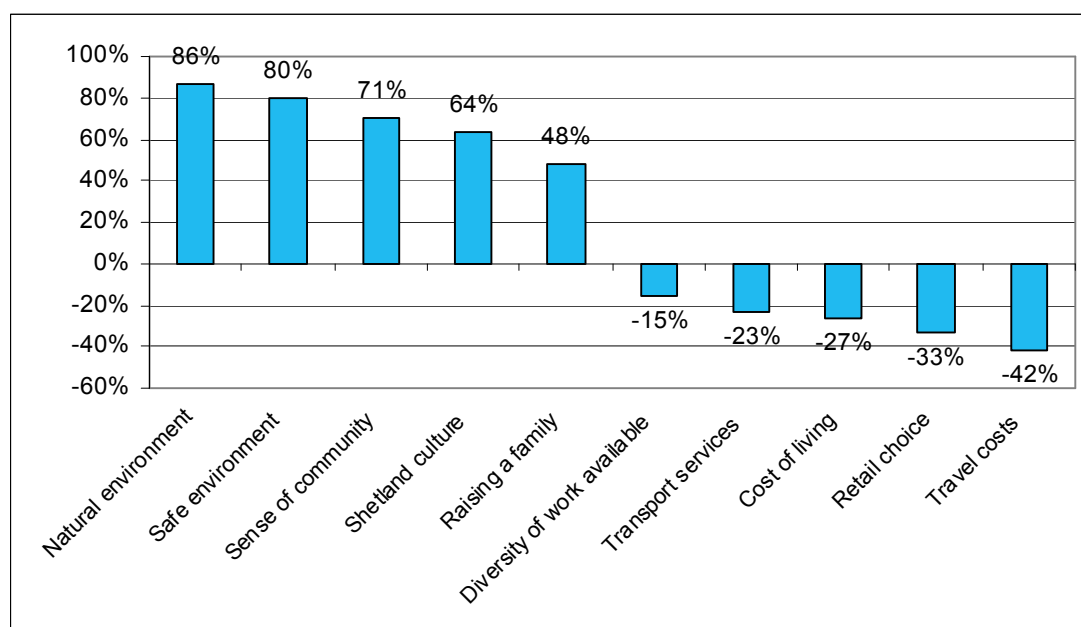
Returners also felt that schooling was of a very good standard in Shetland and this was also supported by views from those who had left the Islands. But the issue of school closures due to low numbers of pupils was becoming more prominent.

There were concerns over facilities for young people generally outside of leisure centres and sport among returners in the survey, again with alcohol/ drugs cited as possible issues.

5.4 In-migrants' motivations and experiences

Shetland's quality of life is a major motivating factor for in-migrants. shows the factors which attracted in-migrants but also the factors which put them off moving to Shetland. More than eight out of ten in-migrants stated the natural environment was a major factor in influencing their decision to move to Shetland. Other factors such as a perceived safe environment and a sense of community also ranked highly. While quality of life factors ranked highly in motivating factors, around four in ten in-migrants rated travel costs negatively. Other practical factors around retail, transport services and to a lesser extent, the diversity of work available, put in-migrants off moving to Shetland.

Figure 26 Factors that made in-migrants want to move/stay away from Shetland



Source: Hall Aitken e-survey, n= 425 (Count consists of made me want to/very much made me want to move there versus made me want to/very much made me want to stay away)

Our focus groups included 6 female and 3 male in-migrants. Five of the group had moved to Shetland since 2000 and were living in Lerwick, South, Central and North

Mainland and in the North Isles. The age range of this group was from early twenties to their late fifties.

Most people in this group moved to Shetland from England. One person was from the US and one from the Czech Republic. Occupations include tourist information assistant, nurses, self-employed artist and physiotherapist. Most of the group own their houses. One research participant is disabled and has to use a wheelchair.

Motivations

Focus group participants and qualitative survey responses highlight the motivations, and the experiences that had motivated them to come to Shetland:

- Raising children – participants wanting a better life for their children;
- Employment – one participant being offered a physiotherapist position while another stayed on during a working visit;
- The urge for something different – this ranged from “wanting to be self-sufficient” to a curiosity and, in certain instances, a wish to leave the perceived ills of living on the mainland as far as possible behind;
- To maintain a relationship – while many people appeared to make joint decisions with their partners about moving to Shetland, some felt that their partner’s job largely dictated the decision.

The chief sources of information that informed their decisions to move to Shetland were:

- A holiday or working visit/ placement; and
- Second-hand information – through internet and video.

For some in-migrants, decisions were firmly made with no-first hand information. For example, focus group participants were aware of some in-migrants who had bought houses in Shetland on the internet without visiting.

Motivations - Economic in-migration versus lifestyle in-migration

Lifestyle migration literature is more typically focused on migrants from Britain to France and Northern Europe and Scandinavia to the Mediterranean. More recently O'Reilly (2007) defines it broadly as:

‘relatively affluent individuals, moving, en masse, either part or full-time, permanently or temporarily, to countries where the cost of living and/ or the price of property is cheaper; places which, for various reasons, signify a better quality or pace of life... often, but not always, later-life migrants and often partially or fully retired.’

Those that prioritise a relatively low cost of living and lifestyle factors appear to have two characteristics:

- Age – older people seeking an environment which fits with their lifestyle and changing needs; and
- Self-employment – where individuals seek to construct a working life around lifestyle.

Lifestyle migration and older age groups

The quality of life that Shetland broadly offers is heavily in demand among many groups – not least those starting a family, older people and other groups to whom its environment (natural, safe) appeals. Despite its broad appeal, it is generally older people who are now in-migrating and this can be explained by three ‘push factors’:

Older people's needs are more likely to be met on Shetland - Research in Northamptonshire into the priorities of older people found that their chief concerns were, among other things, more visible policing, better healthcare and support and cleaner, safer environments – all of which Shetland is well ranked in.

Their life stage facilitates the move - Downsizing in property size is a practical strategy for older people who have no dependent children and allows them to reduce expenditure with lower insurance, council tax and running costs generally. Moving into a smaller or cheaper home allows them to generate extra income to support their pension, a move which the Financial Services Authority regards as more effective than releasing equity.

Those Shetland in-migrants aged 55-64 were twice as likely to identify health services as a motivating factor for moving to Shetland. Also, participants in the focus groups generally identified Shetland as a good place to grow old. There were examples given of younger in-migrants bringing their parents to Shetland so they could, among other things, access better health services.

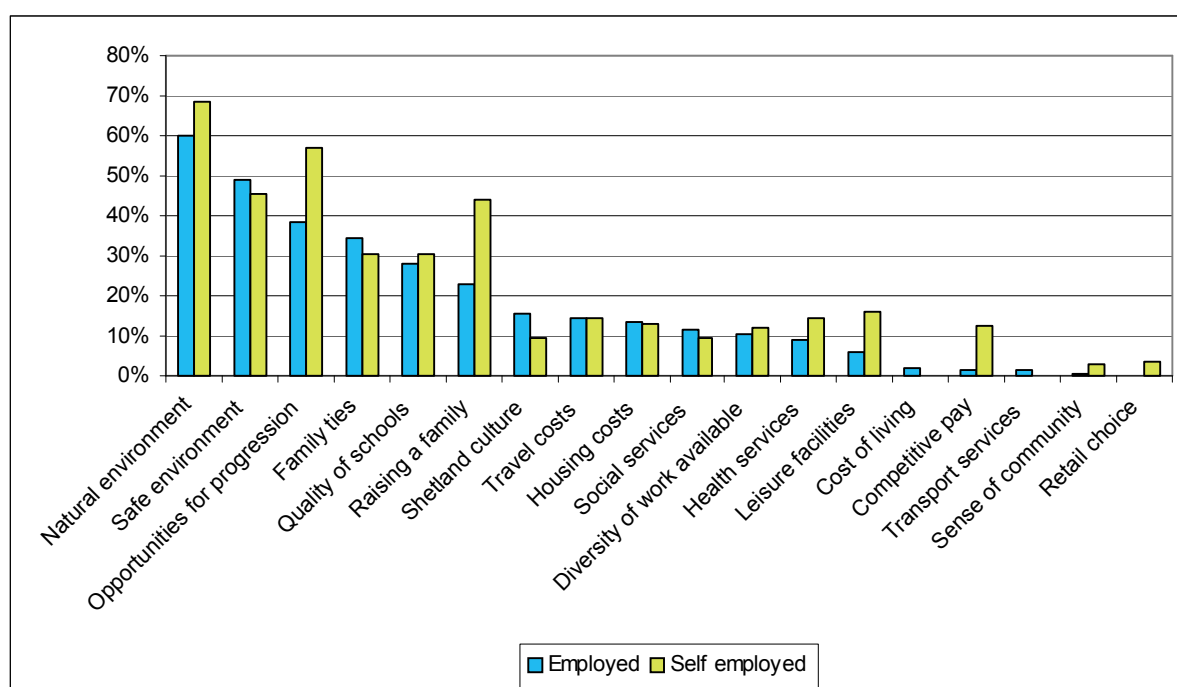
Lifestyle migration and self-employment

While categorising in-migrants as either economic or lifestyle is difficult, one approach is to examine the views of those who are self-employed against the views of those who are employed. Stubbs & Stone (2007) found that:

'Self-employment is the crucial mechanism whereby longer-term lifestyle aspirations can be achieved within a new environmental, institutional and social context.'

Figure 27 shows the motivations of all in-migrants to Shetland against those who are currently self-employed. Self-employed people rated lifestyle factors highly in their motivations to come to Shetland, particularly "raising a family". Greater proportions also rated competitive pay and progression as motivating factors – reflecting perhaps their views on the economic benefits of becoming self-employed.

Figure 27 Factors that made in-migrants 'very much want to move to Shetland' by type of employment

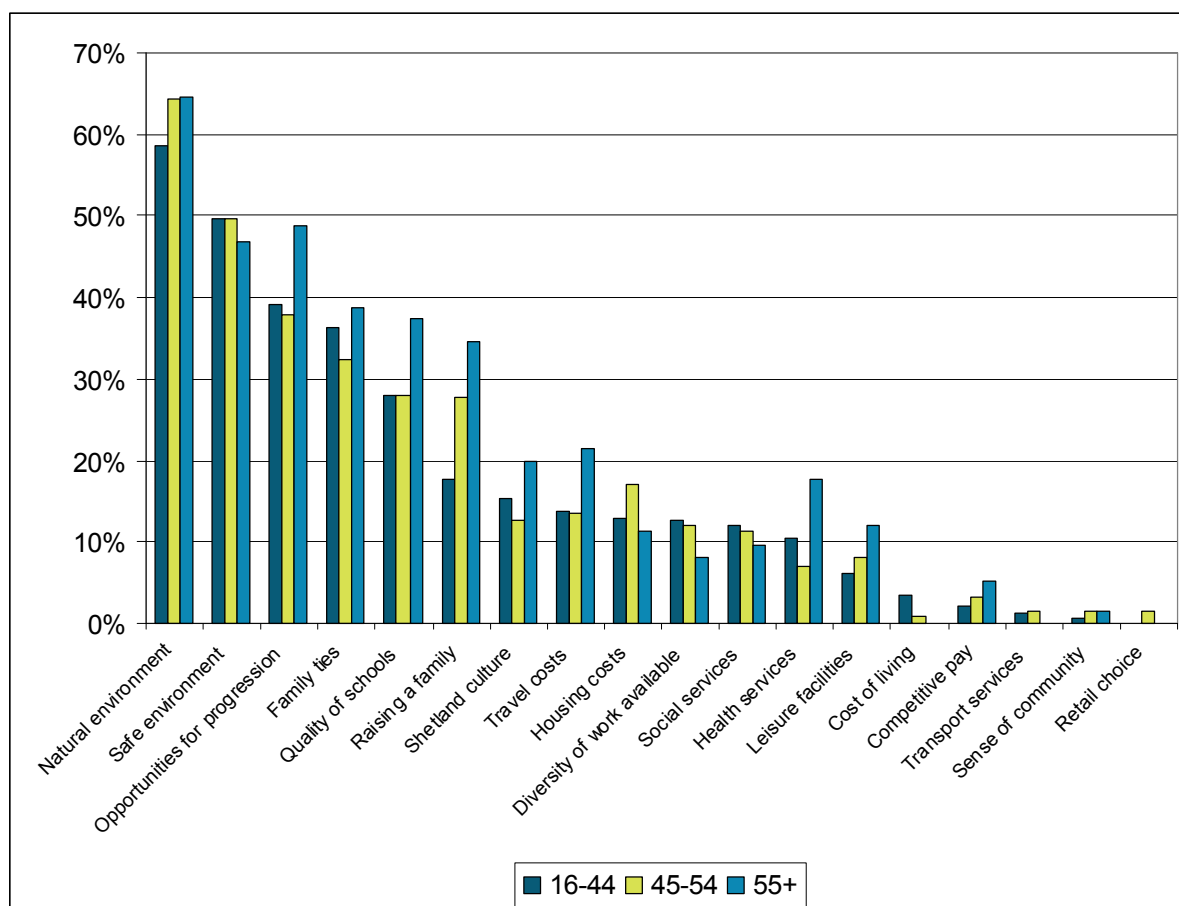


Source: Hall Aitken e-survey, n= 450. Note: self-employed respondents figures were low (40)

In-migration – Career opportunities less important for recent in-migrants?

Figure 28 shows what motivated people to move to Shetland by age group. Reflecting that many older in-migrants would have arrived at the time of the Sullom Voe development, factors like opportunities to progress are more highly rated among older age groups than for younger age groups.

Figure 28 Factors that made In-migrants 'very much want to move to Shetland' by age group



Source: Hall Aitken e-survey, n=468

5.5 In migrants - views and experiences

This section explores the views of in-migrants who attended the focus groups and were living in Yell, Lerwick, South Mainland, Scalloway and the West Mainland as well as qualitative responses to the e-survey.

In-migrants - views on jobs and careers

All but two of the focus group participants had secured employment before moving to Shetland. While these were reasonably happy in their jobs, one of the individuals who had not secured employment before arriving in Shetland described her experience working initially in a short-term job as 'horrendous'. She eventually became self-employed. Another found work as a nurse relatively quickly. In both the Yell and Lerwick groups, in-migrant couples were identified as often moving into

Shetland with one suitable job for one partner but leaving because there were none for the other partner.

Participants felt the Shetland economy was weak in terms of distribution of jobs and the dominance of the council and the oil industry as employers. Job opportunities were limited on the Islands with 'no coherent private sector' although this was seen to be improving. While none of the participants worked in the Oil Industry, they felt the opportunities from this were largely receding. There was also an impression that fewer people were applying for jobs compared to the 1980s and that businesses 'were lucky to get someone'. Employment opportunities were also felt to centre on Lerwick.

But participants also pointed to the North Atlantic Fisheries College as attracting international students and also the Contemporary Textiles course at Shetland College as doing similar and that these were highly regarded in other European countries. Shetland's 'entrepreneurial spirit' was praised as was SIC although there was a view expressed that maybe it 'tries to do too much'. Economic/ employment opportunities identified included remote working, creative industries and self-employment generally. Particularly, there were opportunities to have a 'global career' and examples were given of people in high value jobs basing themselves in Shetland (medical consultancy, fashion buyers, media personalities etc).

Transport

One of the main difficulties experienced by in-migrants while living in Shetland is visiting friends and family who do not live in the Shetland Islands. More than eight out of ten in-migrants stated this was either "very difficult" or "quite difficult". Transport between Shetland and mainland UK was seen as an issue mainly because of cost.

While the air discount scheme was seen as useful, it was still expensive to fly and required a lot of advance planning to get a reasonable airfare. The ferry was felt to be more cost-effective for families who wanted to go south for holidays or see family and friends. It was felt that these costs could be putting a brake on tourism but also other less obvious aspects. For example, Shetland's sports culture was seen as high achieving but the cost of getting young people to compete on the mainland UK was perhaps off-putting.

But one major area for adjustment for in-migrants was transport to and from the Islands. Participants highlighted that the length of the journey was what was difficult – in some situations, being notified of a sick relative in England and then taking two days to see them. This 'helplessness' in the face of a parent's illness on the mainland was not something that they had thought about.

Outside of petrol prices, travelling within Shetland was seen as cheap compared to Orkney with intra-Island ferries free or low in cost. However, the timing of public transport was seen less positively. Much of the issue appeared to be around the practicalities of being in Lerwick for either work or recreational opportunities. One Yell participant believed that her son was unlikely to remain in Shetland as it was difficult for him to access work in Lerwick without a car (cited as 'essential' by some survey respondents). For a nurse in the North Isles who had two student nurse placements, the timings of internal transport provided many problems for them in fulfilling their duties. Reflecting these difficulties, one participant in Lerwick felt that it was 'not uncommon' for in-migrants to move to Lerwick once their children became teenagers. Ferry timings, but particularly bus timings, were seen as being major factors in this.

Housing

The standard of rental housing, its conditions and costs were all issues. Two participants had secured housing for their family for three months initially but faced difficulties finding housing after that (North Isles). Renting housing was described as 'exorbitant' by one participant (Lerwick).

With the housing available to buy, it was felt to be relatively expensive and not always felt to be the right type or in the right places. Again, the issue of accessibility to Lerwick appeared important. Other issues highlighted by survey respondents included difficulty in getting planning permission (North Mainland) and lack of support in assessing housing options (North Isles).

Education, Health and other services

The standard of education on offer for young people was regarded as generally very good by in-migrant focus group participants. In the focus groups, school rationalisation was a controversial issue with many viewpoints on the decisions around closures. There was an acceptance among in-migrant participants in the North Isles that some sort of rationalisation was necessary – but where this would take place and what would be affected (for example, primary or secondary) was not agreed on.

Focus group participants described health care as generally good. A term frequently used to describe it was 'Rolls Royce' with day-to-day health services regarded as particularly good. However, there were issues with:

- Access to specialist health services; and
- Access to dentists.

While the latter is a significant issue nationally and accepted as a general problem, the provision of specialist services was seen as a more localised problem.

The free care provided to older people was also seen as attractive. There was one example of an in-migrant bringing their parents for family reasons but also for the quality of life and services available.

In the North Isles, there was an acceptance that the same level of health services as is provided on the Shetland mainland was impractical. However, maintaining the standard of emergency services appeared to be key.

Community and island life

Focus group respondents felt the Islands' safe and natural environment was one of Shetland's biggest strengths describing them as a wonderful place to bring up children.

In terms of attitude to new ideas, views were mixed. Focus group participants felt Shetland was quite outward looking (supported usually by citing Shetland's historic trading/ migration links). But this was not universal with some survey respondents feeling that it was difficult to get support for new ideas (supported by personal feelings/ experiences).

Focus group participants and survey respondents had mixed views on whether Shetland offered a supportive social environment for in-migrants. Shetland was described as a very welcoming place in the focus groups. But the positive comments in the survey about the islands were contradicted by a not insignificant number of negative comments around Islander attitudes to in-migrants – phrases used included "bigotry", "borderline racist", "discrimination" and "nepotism".

5.6 International in-migrants' motivations and experiences

We carried out two focus groups with international in-migrants in Lerwick. The first group had Shetland partners – these were from Norway, Spain, Thailand, Burma, and Russia. These were all female with two who had been living for two years in Shetland and another four ranging from 8 to 25 years. These were employed in education services, as cleaning operatives and one considered herself unemployed.

The second group were more recent in-migrants from Poland (6), France (1) and Spain (1). A mixture of men and women, three of the group had been on the Islands for less than a month with the rest resident there for between one and three years. They were employed in car mechanic services, hospitality, education services and sales.

International In-migrants – Motivations

The offer of employment was a key motivation for the move to Shetland for several focus group participants. Lack of work or low wages in their home country pushed most of them to seek employment outside their country of origin. In Shetland, one felt that 'in a week you can earn as much as in Poland in a month'.

These pioneers of sorts usually found a job through recruitment agencies. After settling in they were prepared to bring family members over or to provide support for friends who wished to come as well.

There were a few cases where people had established work contacts when they were students and had come to Shetland for summer jobs or on student programmes – and they then decided to come back after graduation. The initial decision of the destination for short-term term work was often influenced by friends' recommendation or – as in one case – by strong links between Shetland and Norway which made the decision almost obvious:

"We had always have loads of people every year from Shetland coming to visit Måløy and there were people from Måløy and the district around who moved over to Shetland. We always regarded Shetlanders as good neighbours, not even a part of the UK, but a neighbour over the sea – they were the same as us." (female, Norwegian)

There were some migrants who back in their country of origin had been working in the capacity in which they had been educated and trained, getting a fairly satisfactory salary. However, they found the pressure, workload and atmosphere at work very challenging. There were views that this was in contrast with the situation in Shetland where employees were perceived to be well respected and well rewarded. Alongside higher salaries, the pace of work and working environment were a pull factor for coming to Shetland. This was particularly the case for those whose friends or relatives had already been working on the islands, as they could get first-hand information on work experiences in Shetland.

A significant proportion of the focus groups participants moved to Shetland to follow their partner who got a job on the islands. Most often a male partner would find employment and a female partner would join them. One Thai female moved because her husband found a job in Shetland. When he moved again, she decided not to follow him:

'because I have two young sons and I thought Shetland offers safety and good education for my children'.

Equally, meeting a partner in Shetland during a placement turned a work placement for one French person into a more permanent move.

However, while financial or family situations encouraged some migrants to come to the islands, others arrived looking for adventure and in order to experience a different country and culture. They often followed friends' opinions about what Shetland is like, but sometimes they took the risk of arriving in a place about which they knew very little.

International In-migrants – views on employment

A considerable number of participants saw themselves setting up a business or going to college to improve their career opportunities. They tended to see themselves staying on the island longer or settling down.

Many interviewees regarded job opportunities on the islands as limited. They also thought that although it is fairly easy to get basic jobs, it is difficult to get into better paid and higher skilled posts. There was a view that this is because of networks of friends and relatives who strongly support one another and make it difficult for newcomers to compete for jobs with well-established community members. And limited availability of high-level jobs locally was seen as an additional barrier to career progression.

Employment was a significant decision-making factor for resettlement, and finding a satisfactory job which matched their skills was often regarded as a pre-condition for staying in Shetland.

International In-migrants – views on language services

Language was repeatedly mentioned as the key to succeeding in almost every aspect of life and work in the new country. There was the recognition among participants the initial language barrier is an obstacle when it comes to participating in community life, accessing public services and progressing their career.

ESOL classes available locally, provided at no cost to migrants and at flexible timing (including weekends), were much appreciated. In many cases the support they provided extended beyond teaching English only. Tutors often helped with practical aspects of life on the islands, such as dealing with application forms of various types, banking and similar issues. Attending classes was also felt to be a great way of expanding social networks. Many expressed the opinion that it was only when they progressed their English that they started to feel a part of the community. Those who arrived with no English found that advancing their language skills helped building up self-confidence which they were lacking at the beginning.

There was a feeling that local accents and the Shetland dialect made the spoken language very difficult to understand. This made general communication as well as further education (for those attending college) quite difficult.

International In-migrants – views on Transport

Transport was recognized as a problem, not so much for moving around on the island (Most lived in Lerwick) but in terms of air transport from the islands for holidays or to visit family. Cost and time involved were the main issues. The problem of unreliable public transport because of weather conditions was also mentioned.

Lerwick was the preferred place to live on the island but there were views that moving to the mainland of Scotland would make life easier in many ways, including transport, housing, entertainment and access to services and infrastructure.

'We are considering moving elsewhere in Scotland so it will be easier to travel to Poland. We might stay here longer though if we manage to buy a house. But it's not easy here with their 'bidding system''. (female, Polish)

International In-migrants – views on other services

There was a view that Shetland is an excellent place for retirement or for families but less so for young people and teenagers due to limited social life and leisure facilities.

International In-migrants – views on community and Island life

All participants found that there is a strong community spirit in Shetland and perceived people to be extremely welcoming and friendly. There was an impression that local people are curious about newcomers and that they welcome foreigners willing to live and work in Shetland.

The local community was seen as very supportive. This situation was regarded as invaluable when trying to adapt to the new environment and its "system" – 'a strict bureaucratic system and all these nice people'.

For those having Shetland partners or friends, connecting with the community was seen as easy and straightforward. They would enter already well-established social networks. At the same time, those who arrived on their own felt that a lack of connections with community members slowed down considerably the process of feeling included. As soon as people found a partner, this changed significantly or where they were following a friend or relative.

Some participants expressed an opinion that bigger groups of newcomers (for example Poles) showed the tendency to stick together and that they deliberately did not want to interact with other community members. Others disagreed with this view, and found the openness to interact with the local community varied depending on the individual's personality. Some people would be more willing to seek contact than others. One Thai woman stressed the importance of a cultural factor – that 'my attitude was initially a barrier to feeling comfortable in the community'.

Opinions on the social life on the islands varied among the participants. While some regarded Shetland as a culturally vibrant place where there was a lot to do others complained about limited entertainment and social opportunities. There were views that the social life in Shetland is often confined to going to a pub and the drinking culture was not attractive to some migrants of different cultural backgrounds.

International In-migrants – future plans

Views on longer term plans varied and there were different determinants influencing them. Generally the strength of links with the community established so far was a very significant decision-making factor. Those living in Shetland with family and children tended to be ready to stay for a longer period and some had already decided to settle down. Single and young people were generally keeping their options open and had no definite plans for the future, other than waiting to "see what happens". Some of the participants were ready to stay for the next few years, but were not considering resettlement.

6 Population projections and implications

This section looks at the current components of population change and uses them to project forward population estimates up to 2030 by locality and for Shetland as a whole. It looks at the likely impacts of different policy measures on future population patterns and offers an indication of the impacts of trends continuing as they are.

6.1 Baseline population modelling

The population model uses information from the General Register Office for Scotland (GROS). This information on population at local council level includes births, deaths and migration. We used the mid 2006 population estimate for the Shetland Islands Council area as our baseline for the population model. From this baseline we added in elements to cover natural change, in-migration and out-migration.

Purpose

The population model provides a transparent tool that will allow local agencies to test the implications of different trends and factors on population outcomes. It is not a population projection or prediction, but can be used to compare the likely implications of policies on population sustainability and service provision.

Inputs and assumptions

Figure 29 shows the inputs for the population model with the data source. Most of the data used is from the GROS.

Figure 29 Inputs for the population model with source

	Source
Baseline population estimates by gender and age	GROS – mid-year population estimates
Births	GROS quarterly returns
Deaths	GROS quarterly returns
In-migration	Custom data from GROS
Out-migration	Custom data from GROS

To calculate the baseline situation for future population figures we made several assumptions:

- Live births per 1,000 women of childbearing age (15-44) will remain broadly the same in each year;
- Death rates within gender and age ranges will remain broadly the same for each year; and
- Rates of in-migration and out-migration by age and gender will remain constant (based on 2005 to 2006).

The model created in Microsoft Excel uses several linked spreadsheets to calculate the final figures and produce charts and tables that outline population components. We have subsequently run several iterations of the model to test the impacts of different trends on future population. We have based these on local knowledge collected through our interviews and focus groups to inform the assumptions in the model.

The baseline iteration of the population model assumes that the current trends continue. However it should be borne in mind that this is not a ‘worst case scenario’ given that the birth rates in Shetland are above national average and that there has been the recent phenomenon of Eastern European immigration. Any significant changes to these factors could have a further negative impact on the population.

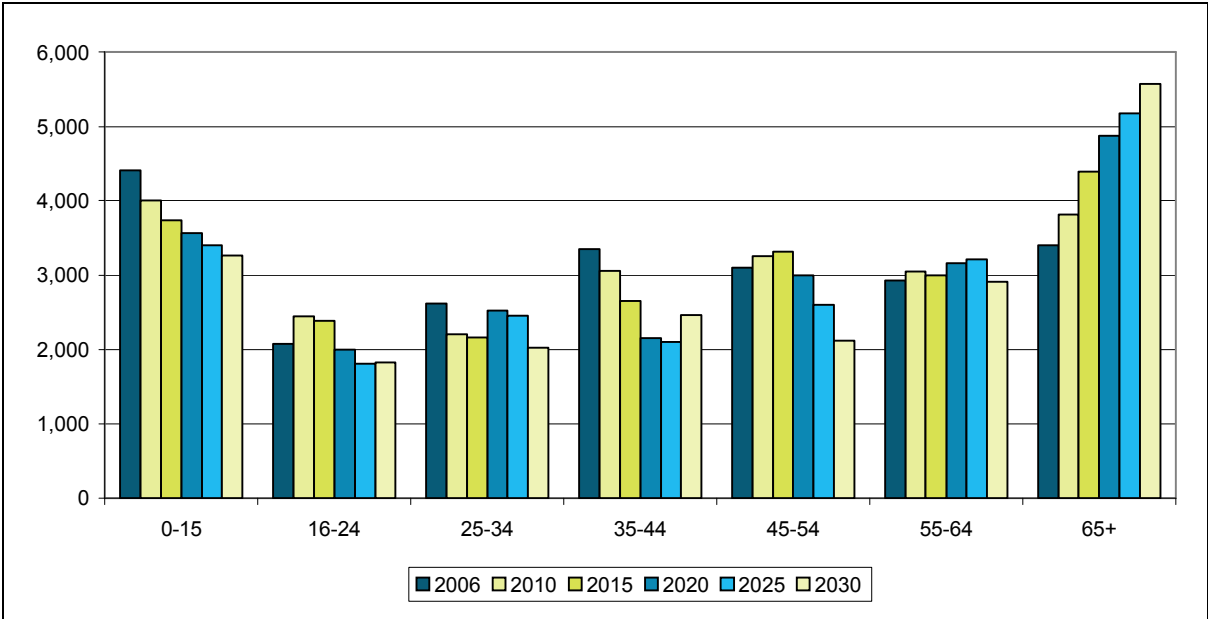
Population age profile

Results from the model based on the assumptions outlined above give the results shown in Figure 30. These results from the baseline iteration of the model show a sharp shift in population, including:

- A steep drop in the numbers of children under 16;
- A decline in the numbers of 16 to 24-year olds after 2010;
- A rapid and continuing increase in the elderly population.

The overall population would, if current trends continue, drop from just under 22,000 to just over 20,000 by 2030.

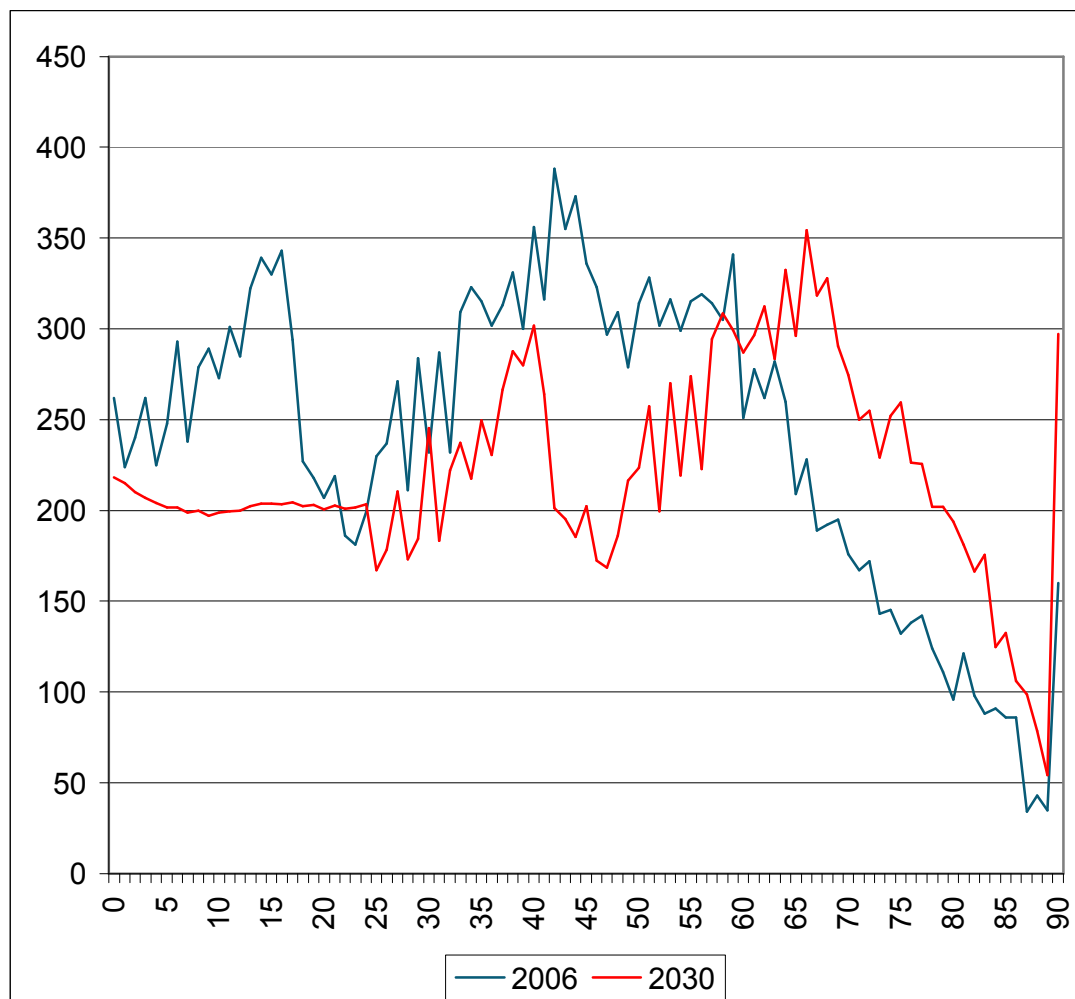
Figure 30 Population changes by age band (Baseline model)



Source: Shetland Population Model

Figure 31 shows the clear change in the population age profile between 2006 and 2030. It shows a clear drop in the 40 to 60-year old population and a large increase in those aged 60 and over. The number of people aged 65 and over would almost double between 2006 and 2030 based on this scenario. The drop in the number of children is also notable.

Figure 31 Population age profile at 2006 and 2030 (Baseline model)

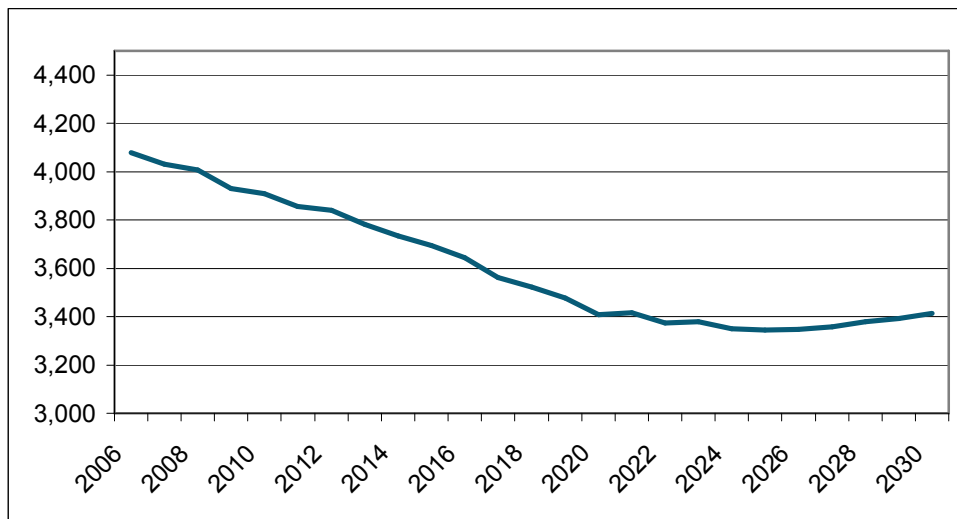


Source: Shetland Population Model

Women of childbearing age

In terms of population sustainability the number of women within the key childbearing age group is important. As Figure 32 shows, the number of women within the 16 to 44 age group would decline sharply from 4,100 to around 3,300 in 2025 before starting to gradually increase again.

Figure 32 Changes in number of women aged 16 to 44 (Baseline model)

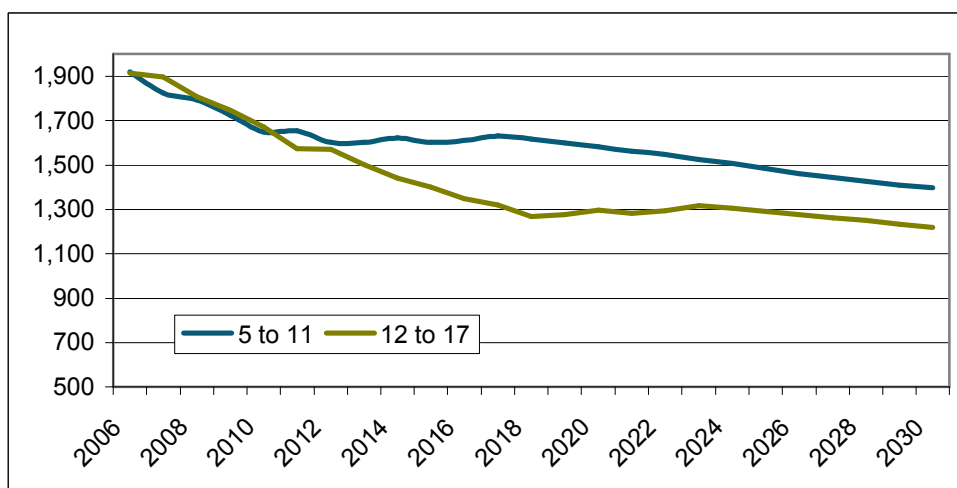


Source: Shetland Population Model

School-age population

There will also be implications from population change on the size and distribution of the school roll. As Figure 33 shows, if current trends continue the number of primary school-age children will drop from around 1,900 in 2006 to around 1,400 in 2030. However the impact on secondary age pupils appears to be more marked with a much steeper drop between 2006 and 2018. And overall numbers would drop from around 1,900 to just over 1,200 by 2030.

Figure 33 Changes in School-Age population (Baseline Model)



Source: Shetland Population Model

6.2 Impacts of population change

Population changes have various implications for service demands and provision. In areas where populations decline, there are concerns about maintaining existing services, such as schools, local shops and health care services (SIC, 2000).

From the interviews with service providers and other stakeholders, the main areas of impact were seen to be:

- Sustaining fragile communities;
- Retaining existing levels of services;
- Geographical shifts in population;
- Increasing reliance on migrant workers;
- Impacts on recruiting staff; and
- Impacts on housing demand.

Fragile communities threatened

Several stakeholders felt the declining population and the ageing patterns would impact most severely on those communities that were already fragile. In particular the communities of Fetlar and Papa Stour were seen to be at risk from these continuing trends. Limited employment opportunities, the cost of infrastructure and the lack of a critical mass for service provision all undermine these marginal communities.

Services

Public services were considered to be under threat from several different angles. The ageing population profile was putting greater burdens for care provision on the Council and NHS budgets. And many elderly households are living in isolated areas making the cost of providing services higher.

Council and NHS budgets are already stretched and several interviewees thought that service cuts would be inevitable in the very near future. If Public sector budgets are to be balanced then hard decisions need to be made about priorities. Declining school rolls in some communities will also increase pressure for rationalisation of services. The projected change to the age structure of the population in Shetland, as well as the continuing rise in Shetland's life expectancy will result in an increased demand for health care provision. A greater proportion of older people will mean a shift in the balance between education and healthcare provision, with a greater emphasis on resourcing the latter service (The Scottish Government, 2004; Community Profiles).

A decrease in the proportion of children and young people in the population has resulted in falling school rolls in some areas (for example, Baltasound Primary, Burravoe Primary and Uyeasound Primary in the North Isles; Dunrossness school in the South Mainland, Lerwick/ Bressay). However, in other areas, school rolls have stabilised, or in some cases even increased (for example, Scalloway Primary, Whalsay Secondary, The Anderson High School, and Brae Primary in the North Mainland). The changing overall school-age population will impact unevenly across the Islands with the biggest impacts likely in the North Isles.

Geographical shifts in population

Employment opportunities, which are often generated through the public sector, tend to focus on Lerwick. Because of this and the concentration of many services in Lerwick there has been a drift of population from more outlying communities towards the Greater Lerwick area. However the lack of suitable housing sites within Lerwick itself has meant that most recently development has focused on the communities to the South and West of Lerwick. Public transport patterns which focus on Lerwick also entrench this shift. Interviewees and focus group participants have reported

that families with teenagers and migrant workers both tend to favour locations within 15 to 20 minutes of Lerwick.

Impacts on recruiting staff

The declining working age population has led to pressures to sustain recruitment levels in some sectors of the economy. Many younger people are leaving the Islands to find higher skilled jobs with progression opportunities and there are fewer students who would fill these types of jobs in other areas. Lifestyle in-migrants are often financially independent and work fewer hours than others; they therefore contribute less to the local labour market.

The health and care sector in particular is reporting problems in recruiting and retaining staff in both skilled and unskilled jobs. The new care centre on Yell is struggling to find staff and service providers predict these problems will worsen.

Increasing reliance on migrant workers

Many sectors of the Shetland economy now rely significantly on migrant workers from Eastern Europe. Construction, hospitality and fish processing are all increasingly reliant on migrant labour to remain productive and competitive.

This leads to demands on services such as schools and ESOL providers. ESOL providers report around 170 migrant workers registering in 2007. However Shetland has a long history of welcoming and integrating people from other cultures and there have been numerous activities involving migrants and the wider community.

Adult Learning Education in Shetland has been increasing their provision to meet the growing demand: there were 32 learners in 2005/06 - 92 learners in 2006/07, and 169 currently in 2007/08. Developing the ESOL programme has been recognised as one of the four priority areas for 2008/09 (SIC, 2007b). At the same time it has been reported that Shetland's schools are facing challenges accommodating an unexpected influx of children with language needs (Press & Journal, 24 November 2006).

However there have been concerns voiced about the continuing availability of migrant workers once the UK Government points-based immigration policy has an impact. This will particularly restrict the numbers of migrant workers available for lower skilled jobs which are those for which the demand is highest.

Impacts on housing demand

Impacts of Shetland's population change on housing demand are reasonably well understood:

More housing will be needed - Slight drops in population (and the reduction in demand that this would normally bring) have been offset by decreases in the average household size (projected to drop further to 2.06 from 2.6 by 2014). This means that Shetland is likely to need 11% more houses by 2014 (SIC, 2000 & 2005).

More special needs housing will be needed - The increase of older people within the Shetland population is likely to impact on the demand and availability of special needs housing, such as level access housing, or sheltered housing. The need for special-needs accommodation was reported as being at crisis point already in 2005 (SIC, 2005b).

Affordability and availability is increasingly an economic development issue - House prices in Shetland rose between 2002 and 2005 by 26.1% (HIE, 2007, p11).

Shortages of good quality land for house building, as well as high additional costs for infrastructure at available sites, are not without impact on prices and stock (SIC, 2005b). There is a question of affordable housing, especially for the younger population – for those continuing their education and those leaving home and requiring independent accommodation (SIC, 2005a, p.4). A lack of low cost housing to rent, and increasing house prices, is also seen as a potential problem to labour recruitment and retention, which includes in-migrants to the area. A broad conclusion from Communities Scotland research (carried out also in Shetland) is that “housing affordability is a contributory factor to recruitment problems.” (Communities Scotland (2005) Research Report 90: Affordable housing and the labour market in Scotland: do high housing costs create labour shortages?)

Service providers and stakeholders also highlighted that the increase in migrant workers and the shift towards Lerwick are also putting greater pressure on the housing market. Migrants tend to occupy private rented housing and often live in overcrowded conditions to keep costs down. We have also identified an increasing number of houses being kept as either holiday or second homes. Three participants in our Glasgow workshop still had a house in Shetland and several interviewees also recognise this phenomenon. While some of these properties may be available as winter lets the presence of these second homes limits housing supply and distorts the market.

The lack of accessible housing therefore becomes both a symptom and a cause of population change as it restricts access to the market for younger and lower earning households.

Cultural changes

Some interviewees have also highlighted a change in culture and attitude brought about by some lifestyle in-migrants. Some people who have come to Shetland for its quality of environment can be more reactionary in their views to new development such as social housing proposals. This phenomenon of the so-called ‘drawbridge migrant’ has been reported elsewhere.

6.3 Conclusions

By modelling current population trends we have developed a model to explore some of the likely implications of population change. This is based on birth rates and migration patterns continuing the present trends. Because this is unlikely to happen, this is not a prediction or projection, but a baseline scenario against which we can compare other possible outcomes.

The baseline run of the model indicates that continuing the current trends will result in the following changes by 2030:

- The overall population dropping to around 20,000
- A drop of 18% in the number of women in the childbearing age group;
- An increase of 63% in the number of residents aged 65 and over; and
- A decline of almost a third in the number of school-age children.

These changes would have implications on the labour market, with a declining (and ageing) working age population and on the cost and viability of service-provision. In particular a reduction of a third in the school roll would threaten the current number of schools. And the major increase in the elderly population would put pressure on health and social care services both in terms of funding and recruiting the necessary staff.

The likely outcome would be a reduction in the level of services (mostly in outlying areas and an increasing reliance on migrant labour. Some specialist maternity or anti-natal services could also be threatened by the longer-term decline in the number of births.

7 Developing a sustainable community

This section draws on our research to highlight what would be a desirable situation in 15 to 20 years. It also draws on the population model to show what a scenario is likely to require in terms of population component changes, as well as what changes would be necessary to meet the target of 25,000 people living in Shetland by 2025 identified by community planning partners.

7.1 Vision of a sustainable population

The previous chapter outlined that, if current trends continue, the population is projected to fall to just over 20,000 by 2030 with the percentage of the population of childbearing age set to be 18% lower than it is now. This will continue to impact on school rolls and it is likely, given the current movement of population towards 'Greater Lerwick' that this will disproportionately affect remoter communities. Whether schools should be closed may become less of an issue than actually finding the children to attend.

Our research suggests that attracting working age people, particularly families or those who are about to have families, can sustain the population. Focusing on actual numbers and targets (25,000) is perhaps distracting agencies from the core issue of having viable and balanced communities. In peripheral areas, this was seen as most important as 'one or two new families can make such a difference'.

Most of the factors that appeal to older people also make Shetland an ideal place to raise a family. However, the key difference between these life stages is the need for rewarding employment and it is in this area that Shetland is generally felt to be lacking.

7.2 Impacts of policy options

Using the population model we have tested some different options in terms of population change to identify their potential impacts. Figure 34 shows what the impacts of various changes to in and out-migration patterns would achieve by 2025.

Increasing the proportion of those returning after they have left the islands by 20% would have only a modest impact on increasing the population. This would result in an additional seven births per year by 2030 and would increase the overall working-age population by around 300 compared with the baseline model.

A higher rate of returners (40% increase) would lead to around 14 more births per year than the baseline and an additional 600 people of working age by 2030. Similarly, increasing in-migration among younger age groups (by 20%) would lead to an increase of 21 births and around 900 more working age people.

However, to actually achieve an increase in the population against the current level, there would need to be an increase in 40% in the number of in-migrants and returners aged 25 to 44 and a reduction of 33% in out-migration among Shetlanders aged 16 to 24. However this would still result in a drop of around 400 in the Primary school roll by 2030 and a lower number of women of childbearing age and births compared with 2006.

Figure 34 Impacts of different policy options by 2030

Policy option	Population at 2030	Change in childbearing population	Number of annual births at	Working age population	% population under 35	Primary school-age population –
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Current situation (2006)						
2006	21,880		266	13,410	42%	1,921
Trends continue as is						
Do nothing	20,141	-18.0%	220	10,543	35%	1,398
Trends improve						
Increase returners aged 25-34 by 20%	20,524	-15.4%	227	10,850	35%	1,431
Increase returners 25-34 by 40%	20,923	-12.9%	234	11,170	35%	1,465
Increase all in-migrant age groups under 45 by 20%	21,352	-10.4%	241	11,432	36%	1,521
Reduce out-migration by 20% among 16 to 24	20,576	-13.9%	231	10,869	36%	1,443
Increase returners/in-migrants by 40% (25-34) and reduce out-migration by 20% (16-24)	21,339	-8.8%	244	11,480	36%	1,509
Increase returners/ in-migrants by 40% (25-44) and reduce out-migration by 33% (16 to 24)	22,373	-3.6%	258	12,289	36%	1,575
Community Planning target of 25,000 by 2025 met						
Increase all in-migrant age groups under 45 by 50% and reduce out-migration by 50% (16 to 34)	25,184	17.8%	309	14,751	41%	1,911

Meeting the community planning target of reaching a 25,000 population would require a significant coordinated effort to achieve. This would involve reducing the number of people under 45 leaving each year by 50% and increasing the current immigration among under-35s by 50%. However if this could be achieved it would have several positive effects on the population:

- The number of annual births would be higher;
- The primary school roll would be sustained at the 2006 level;
- The proportion of the population aged under-35 would remain similar to 2006 levels.

However the proportion of the population above retirement age would still increase by 5 percentage points and the proportion of the population who are of working age

would drop. This perhaps highlights the scale of the problem in achieving a sustainable population structure. Even in this more positive scenario, the population aged 65 and over increases by 64%, however the rest of the population is likely to be more able to provide services for these older members of the community.

Figure 35 Age profile of different population options

Option	% Population under 16	% Working age	% Retirement age
2006	20%	61%	19%
Status quo continues	16%	52%	31%
Increase returners 25-44 by 20%	16%	53%	31%
Increase returners 25-34 by 40%	16%	53%	30%
Increase all in-migrant age groups under 45 by 20%	17%	54%	30%
Reduce out-migration by 20% among 16 to 24	16%	53%	31%
Increase returners/in-migrants by 40% (25-34) and reduce out-migration by 20% (16-24)	17%	54%	30%
Increase returners/in-migrants by 40% (25-44) and reduce out-migration by 33% (16 to 24)	16%	55%	29%
Community Planning target of 25,000 by 2025 met			
Increase all in-migrant age groups under 45 by 50% and reduce out-migration by 50% among 16 to 34	18%	59%	24%

7.3 Conclusions

Our consultations and population research suggests the overall size of the population is less important than achieving a healthier balance in terms of age and gender. Our research suggests that the overall aims for population sustainability by 2030 should be to:

- Sustain the proportion of the population that is of working age;
- Stabilise the school-age population;
- Sustain the number of females of childbearing age; and
- Retain the populations of the most fragile communities.

While this does not necessarily require the population to increase to 25,000 clearly significant population increase is needed to ensure a sustainable and balanced population in the longer term. However age and distribution of population are more important than overall totals.

8 Factors needed for sustainable communities

This section sets out some of the current factors we have identified that will underpin community sustainability. It summarises the key outcomes from the Scenario Planning exercise and then sets out the desirable situation in fifteen to twenty years across a range of aspects that were identified. It also identifies some of the actions that agencies will need to focus on to achieve these outcomes.

8.1 Scenario planning

As part of our investigation into the drivers of population change in the Shetland Islands, we held a scenario planning session involving both members of the Community Planning Partnership (CPP) and a group of officers from public sector organisations in the Islands. The session therefore represented a broad spectrum of views and expertise allowing us to investigate a range of issues.

The scenario planning session involved a short exploration of key issues and drivers with the main CPP followed by more detailed scenario planning with the officers group. The participants had also been given the opportunity to contribute issues to a brief e-survey prior to the session taking place.

The aim of the scenario planning session was to identify the key drivers of change over the next 15-20 years and enable key players to engage in a detailed discussion on a range of alternative futures that may result. It allows people not only to identify what the main drivers might be, but also to look at the complexities that arise when they interact and the range of possible outcomes that are possible from different events and eventualities.

8.2 Identifying the drivers of change

Through the e-survey and the initial identification exercise we were able to define around thirty-six separate drivers of change that people felt would be important in the next 15-20 years. These issues were discussed individually and prioritised by relative certainty and uncertainty. By identifying the likely impact that certain issues will have and the degree of certainty attached to them we can begin to identify those issues which will be the key drivers of change. These issues are usually those predicted to have a significant impact but with a high degree of uncertainty.

In broad terms the issues fall into the following categories:

Economy	Economic drivers including business growth and economic activity.
Access	Access, communications and connectivity issues.
Politics	Global, political, social and economic drivers.
Society	Social factors including community integration and the demographic mix.
Community	Issues of civic pride and community esteem.
Environment	Uncertainty around climate change issues and the importance of natural environment

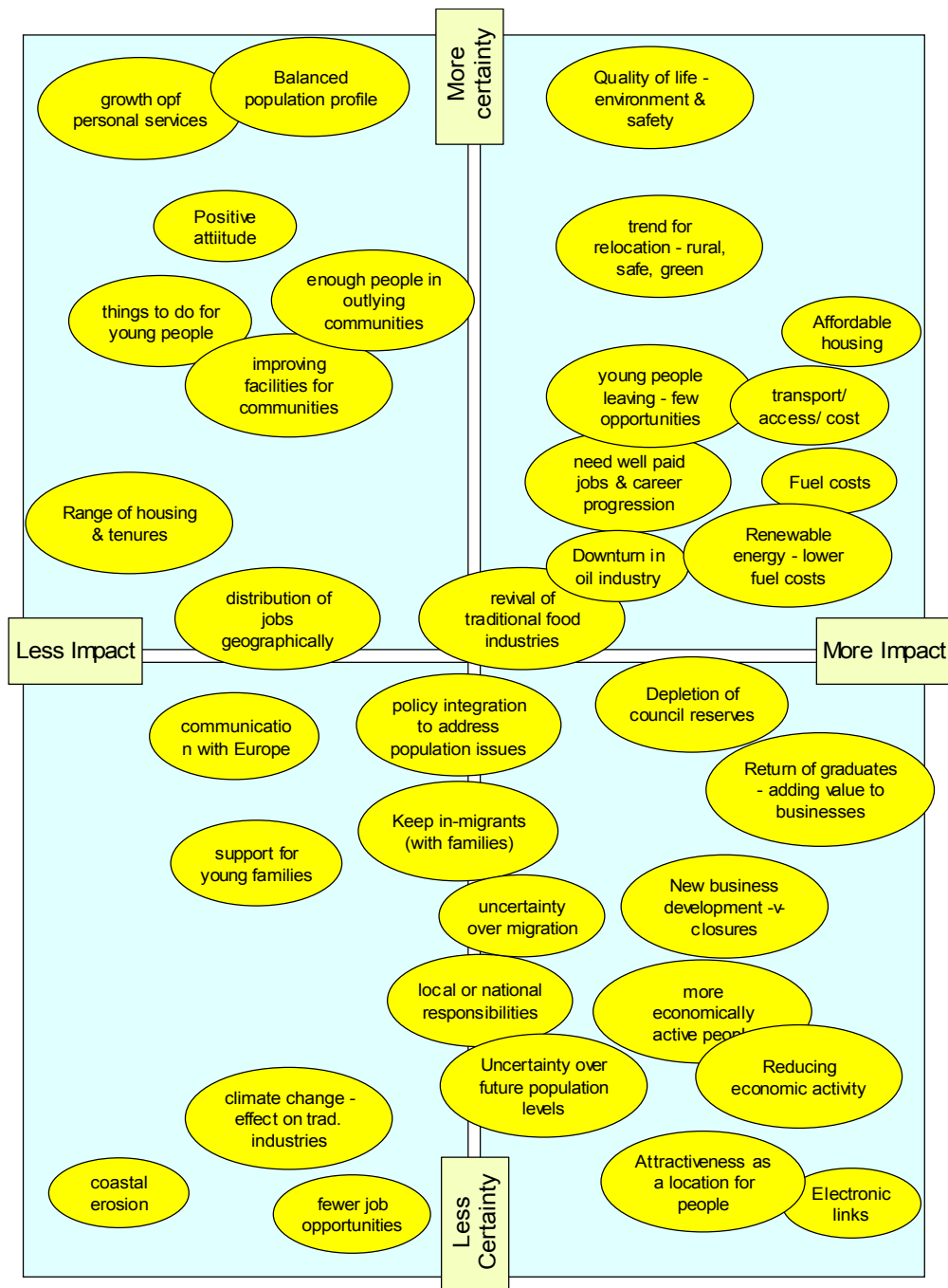
These issues were then analysed and mapped onto an impact and certainty grid to highlight what the potential impact they may have and the level of certainty about their occurring. Figure 36 shows the issues identified by the group mapped onto the Impact/ Uncertainty Grid. It was interesting that the CPP identified a large number of issues over which they felt they had some degree of control because of the availability of resources within the Islands. This is a level of empowerment we have not encountered in similar studies elsewhere in Scotland.

Those issues in the bottom right-hand quadrant are both uncertain and have high impact so will be of strategic importance when addressing population issues. These include:

Connectivity	electronic links and broadband
Business growth	the level of economic activity including opportunities for business growth
Being attractive	the attractiveness of the Islands for in-migration investment and tourism
Knowing the problem	the lack of knowledge about future population levels and its impacts
The albatross	the depletion of Council reserves
Skilled workers	the Islands' ability to keep its own graduates and to attract in-migrants in target sectors.

This analysis also identifies contextual issues over which people have some degree of control. These are those which although they have high impact they are less uncertain. These included community facilities, quality of life issues, housing, tenure, distribution of jobs and communications.

Figure 36 Impact/uncertainty grid developed by CPP members



8.3 Alternative futures (scenarios)

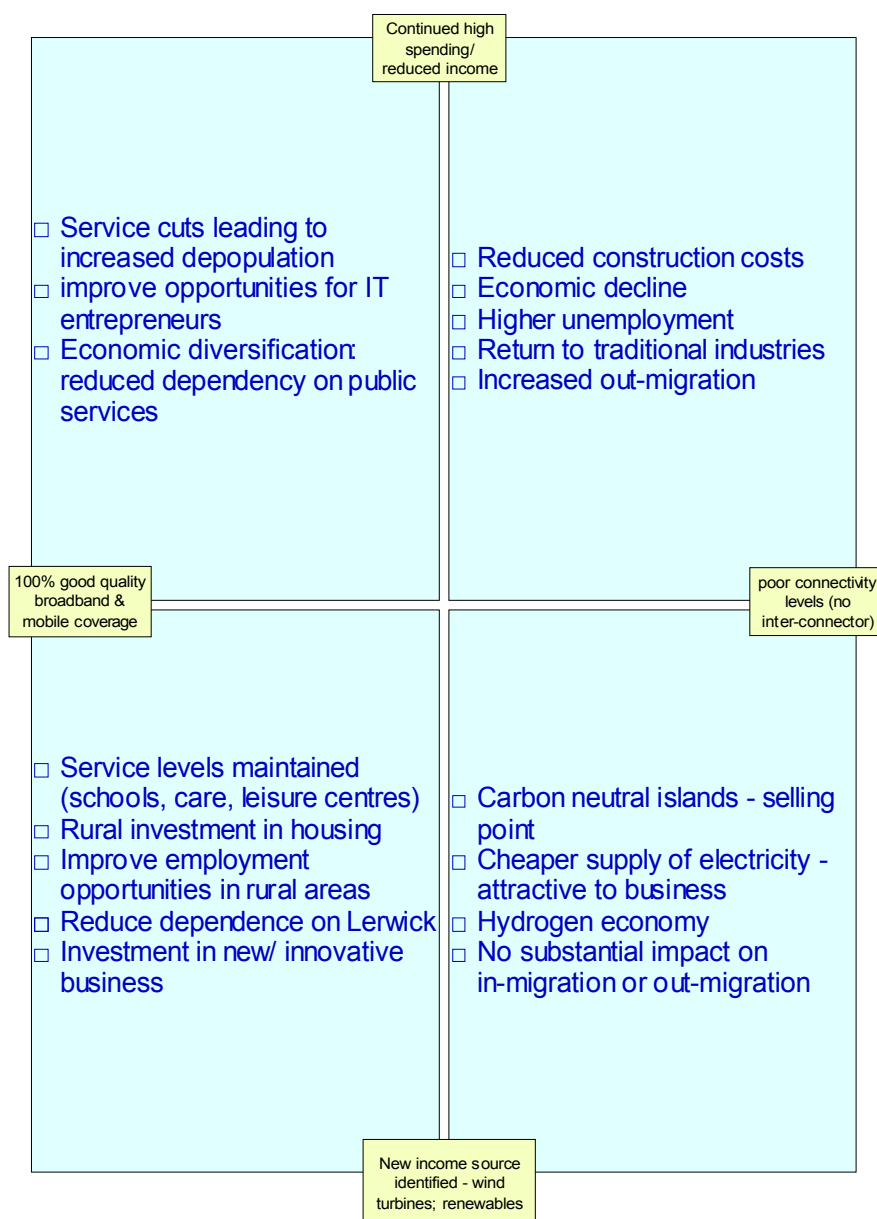
We then took this information to the officers group to look in more detail at the inter-relationship between some of these high impact and high uncertainty issues. This involved a basic form of scenario planning and developed into a lively discussion covering a broad range of issues.

We looked at two sets of the most important issues and mapped different scenarios using different extremes of possible future outcomes. The value of doing this is that

it allows us to test possible policy interventions against several possible scenario outcomes. These outcomes are based on looking at different ways that participants feel that uncertain issues will play out. The outcomes from these sessions are illustrated in Figure 37 and Figure 38.

In the first scenario looking at availability of resources and communication links there were positive scenarios based on re-investing the current oil fund. This would be in renewable energy enterprises that allow service levels to be maintained in terms of schools, care provision and leisure centres and enable additional investment in housing and creating employment opportunities in rural areas. This would reduce dependency on Lerwick among outlying communities.

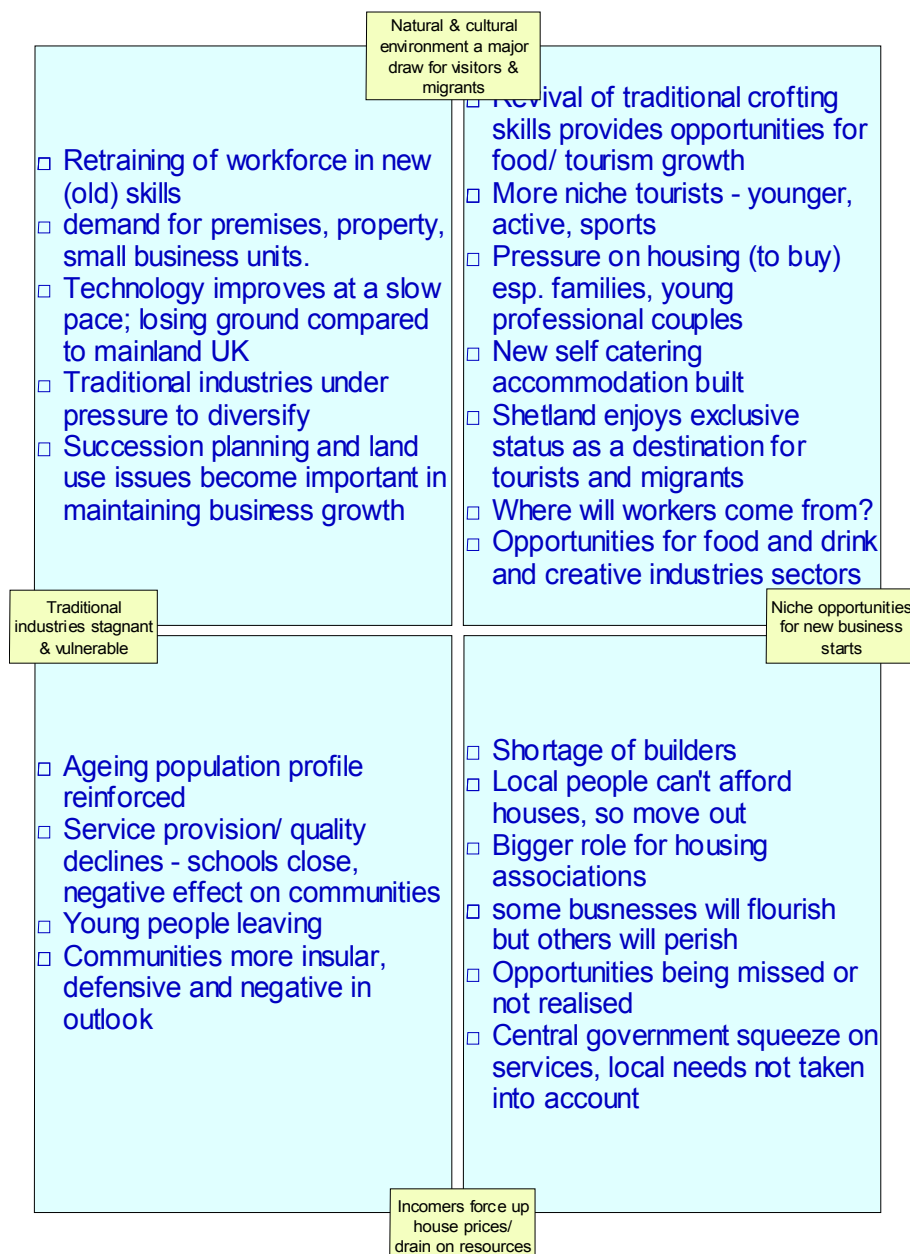
Figure 37 Scenario Grid 1



Alternative scenarios – with renewable energy resources being developed but poor connections - see the Islands as carbon neutral, a very big selling point, and a potential supplier of cheaper alternative electricity to businesses. But this may not have a substantial impact on either in-migration or out-migration.

The other scenarios look at the possibility of service cuts due to declining oil revenue which would lead to increased depopulation and particularly disadvantage rural areas. This would lead to higher unemployment, a return to reliance on traditional industries and increased out-migration. However the scenario with good electronic connectivity would enable some business diversification and new business start-ups, although this would not reverse the trend of depopulation.

Figure 38 Scenario Grid 2



In the second scenario planning group the two factors reviewed were the strength of traditional industries and the role of lifestyle migrants. This session considered that where the Islands' natural and cultural assets are used as a major draw for both visitors and migrants, and in an environment where businesses can grow, a range of opportunities could be identified for growing tourism products and for developing indigenous food industries and developing creative industries. These all have a very strong base in the Islands and would be expected to grow given the right conditions. It was also recognised that this scenario would create pressure on housing

particularly for families and young professional couples and would also raise questions about where migrant labour might come from in the coming years. This scenario depends on the Islands becoming an exclusive destination (for tourists) to overcome the problems of the cost of access and the limited availability of accommodation. This equally applies to potential targets like inward investors, researchers and skilled workers.

An alternative scenario would show a situation where incomers may have an adverse affect on house prices and prove to be a drain on services and existing resources. Alternatively where the economic climate was not favourable to small businesses, we would see a decline in services, schools closing and a very negative effect on individual communities which would become less assertive and positive, more insular and defensive. The population would continue to age and the problem of demographic imbalance would worsen.

8.4 Broad direction needed

The scenario planning session concluded with a lengthy discussion on the implications of different scenarios and of how the key drivers could be manipulated to provide positive outcomes over the time-span we are looking at. The group came up with several issues that will be important in influencing population sustainability.

Virtuous circle	The first is a virtuous circle that involves growing businesses in the Islands linked to the need to create jobs. This involves a diversification of the economy but also involves supporting communities and aiming for support to outlying communities rather than driving the continued centralisation in Lerwick.
Barriers to in-migration	The second issue raised was the barriers to in-migration including housing which is a very obvious driver and whether housing can be used directly to influence both in-migration and economic growth. It was agreed that housing could be used for this but it required careful management. Other interesting issues include the availability of childcare given the increasing trend towards both partners in the household having jobs and also the issue of integration of in-migrants into communities to reduce feelings of isolation when entering a new society and, in the case of Shetland, a distinctly different culture. This applies to in-migrants coming from outside the UK.
Desirability and cachet	The third issue is the desirability of developing cachet for the Islands. Because of the distance from markets and the cost of access of the Islands, there is seen to be a need to develop exclusivity or a fashion desirability of the Islands that would allow Shetland to sell itself without having to go to extremes of subsidising travel for example. It would allow the Islands to target specific types of in-migrants and specific types of visitors that would in turn enable specific niche markets to be developed.
Environmental and cultural assets	Another key driver is the use of the Islands environmental and cultural assets as key drivers of population change. There is a feeling that the Islands have great strengths in terms of culture, environment and how people perceive the Islands and these can be used not only to drive business and jobs growth but also to be the drivers of changing the population towards the desired targets.
Review population targets	Related to this was a feeling that the currently agreed population target of 25,000 people is a blunt instrument and not sufficiently understood to be able to do anything about it. So the group recommended the targets be reviewed to better reflect the target demographic profile that is required to make the Islands sustainable.
A few catalytic interventions	They also agreed there was a need to concentrate on a few catalytic interventions to create change rather than attempt to be all things to all people. This may mean a focusing of expenditure on specific projects that will create the result that is needed rather than simply applying money evenly across the Islands. And the last issue was the need to balance academic vocational and entrepreneurial education for out-migrants to counter the in-built driver towards sending school-out-migrants to universities to complete their education.

8.5 Areas for future policy focus

Our interviews with service providers and other key stakeholders have highlighted several issues that need to be addressed by policy-makers. These are summarised below:

Living within our means

There is an overwhelming awareness among interviewees that the level of spend and service-provision is unsustainable. The Council is seen to be living beyond its means and 'squandering' the remaining oil revenue. Many people identify the need for tough decisions on prioritising expenditure in the very near future.

Re-adjusting services

The current expenditure on service provision will need to be reined in and this will clearly have an impact on the scale or quality of services the Council can fund. For example the cost of providing specialist care to all parts of the island is untenable in the medium to longer term meaning that some care services will need to be centralised. The impact on levels of service provision might make the Islands less attractive to some groups who are currently attracted by the quality of service.

Similarly school provision will need to be reviewed so services reflect the population. There needs to be a more realistic balance about what the Shetland population can sustain in terms of schools.

Balancing the population

There is a strong feeling the current target of increasing the population to 25,000 is unrealistic. This was the high point of population when Sullom Voe was at its peak and it would be difficult to imagine any future employment opportunities on this scale. Many felt that adjusting the level of service provision to match realistic population estimates makes better sense than trying to grow the population to justify unsustainable levels of service provision. The effort should be on attracting younger, working age households back to the Islands to balance the age profile of the population rather than growing the population per se.

Distributing population growth

There were mixed views about whether there should be positive steps taken to grow key settlements outside of Lerwick. Some stakeholders felt the drift of population towards Lerwick was inevitable and that policy should support market forces. Others thought that some effort should go towards sustaining growth centres where there had been significant investment in providing facilities such as schools and leisure centres.

However, the availability of jobs was seen to be the key driver behind population distribution. So any efforts to promote locations outwith Lerwick would need to be backed up by focused economic development activity. Given the dominance of the public sector this would require the Shetland Islands Council taking the lead in devolving jobs to these growth centres backed up by proper office facilities and broadband connection. These devolved centres could then be the focus for developing incubator units for business start-ups and affordable housing.

Promoting self-reliance

The level of public sector services provided for residents has undermined the traditional self-reliance of crofting communities. A greater focus on communities developing their own solutions to meet community service needs will make services more responsive and cost-effective.

However in some communities there is already a strong community sector and these could be developed and supported to take on more responsibility for local services.

Affordable housing

Housing was seen as a key issue in sustaining and growing the Shetland population. In particular affordable rented or shared equity housing for younger people wanting to move back or into the Islands is a priority. The majority of housing need is focused within the greater Lerwick area that is most attractive to people returning. However if the population is to be balanced and sustained in other parts of the Islands then housing needs to be provided alongside economic opportunities.

Some stakeholders considered that the Council and housing agencies could intervene more effectively in the housing market and possibly take a role in managing some of the holiday and second homes that are increasingly common.

Opportunities for renewable energy

Renewable energy is seen as one future opportunity to support the Shetland economy. There has been discussion about whether the oil revenue should be invested in renewable energy to create a more sustainable revenue stream in the longer term. However, even if the Council chooses this option the money will be tied up for a considerable time before any revenue comes in. And selling power to the grid will require considerable upfront investment in an interconnector to the mainland. The distance from the main energy markets makes this kind of investment less feasible for the private sector so some public investment will be required.

Marketing the Islands

Several stakeholders felt the oil boom had distracted agencies from making serious efforts to market the Islands in terms of local produce or tourism. They felt that some nationally significant resources were not being marketed and that the tourism product had considerable potential for development. Lessons could be learned from Orkney on how to effectively market Island goods and services.

Supporting enterprise

Several stakeholders identified the need for a more strategic approach to developing and growing businesses and this is a current priority for HIE. One interviewee felt that some investment was simply propping up hobby businesses rather than developing genuinely competitive enterprises. Some stakeholders considered that there were very few businesses that were globally competitive with most operating within a domestic market. The limited provision of broadband was seen as a key weakness in developing more globally competitive businesses.

Stronger collaboration between the Public sector, Education establishments (such as UHI) and the private sector would help to identify and support a small number of opportunities to develop competitive advantage. Attracting skilled researchers or graduate placements could also help to stimulate enterprise. Some sectors

identified as having potential include renewable energy, creative industries, knitwear and music; in addition to current strengths such as fishing and aquaculture.

Providing incubator units or core business support services in association with better broadband access may help to stimulate business start-ups. However the low levels of risk-taking among the indigenous Shetland population is a major barrier to overcome.

Supporting the workforce

Problems in attracting staff in key sectors are predicted to get worse in the medium term suggesting a continued reliance on migrant labour. The growing burden of care emerging from the ageing population will require a larger and more flexible workforce, and this in turn will have implications for housing provision.

9 Recommendations

This section outlines some of the key longer term strategy objectives and policy areas that local agencies and communities will need to pursue to achieve the type of sustainable communities outlined in the previous section.

9.1 Overall aims

Our research suggests the overall aims for population sustainability by 2030 should be to:

- Sustain the proportion of the population that is of working age;
- Stabilise the school-age population;
- Sustain the number of females of childbearing age; and
- Retain the populations of the most fragile communities.

While this does not necessarily require the population to increase to 25,000 clearly significant population increase is needed to ensure a sustainable and balanced population in the longer term. However age and distribution of population are more important than overall totals.

9.2 Key issues impacting on population

Broadly this research has identified three key areas which influence population change and which should therefore be the focus for any future measures aimed at addressing out-migration; these are:

- Economic development;
- Infrastructure; and
- Social issues.

We have summarised the key challenges around these below.

Sustaining the economy

The key challenges facing the Shetland economy are:

An over-reliance on public sector employment and an associated under-development of the private and community sectors. Outside of the public sector the prospects in traditional sectors such as crofting and fishing are questionable and outwith the control of the local agencies.

Most young people leaving Shetland's schools gain high levels of qualifications and are automatically encouraged to go to University on the Scottish mainland. However this fuels a brain-drain of potentially more enterprising members of the community and reduces the pool of people available for vocational training and skilled trades.

There are limited and declining opportunities for women and higher skilled workers. Most employment demand seems to be for lower skilled workers in the traditional industries, while the number and range of skilled opportunities in the oil sector has declined.

Employment opportunities are concentrated in Lerwick which has implications for trying to sustain some of the outlying Islands and communities.

Infrastructure

The key challenges around infrastructure are:

There is limited affordable housing of the right type and in the right locations to meet the needs of the labour market and to encourage greater in-migration. There appear to be an increasing number of second and holiday homes across Shetland while the existing housing stock is put under pressure by declining household sizes, a drift of population towards greater Lerwick and an influx of migrant workers.

While transport is generally considered good in Shetland, timings of public transport and cost of fuel will increasingly place barriers on travel to work areas. With most jobs based around the Lerwick area, transport connections are extremely important to support the local labour market.

Its peripheral location in the UK puts Shetland at an economic disadvantage and this is compounded by poor connectivity. Many businesses and self-employed people will rely on high-speed and reliable broadband connections but Shetland is at the trailing edge of broadband technology.

Social issues

The key challenges around social issues are:

Many outlying communities are strongly reliant on lifestyle in-migration to keep local services going and to sustain population levels. However some in-migrants are not fully engaged in the local life of the community and are not economically active. This needs to be addressed so the contributions of these skilled residents can be maximised.

With an increasing reliance on an international in-migrant workforce the level of integration of in-comers will be important to sustaining communities. While this has been a positive feature in Shetland so far, the scale of in-migration needed in the future will place a challenge on communities and agencies to maintain this.

9.3 Key priorities

Our research has identified key population drivers, the likely impacts of continuing trends and some of the challenges currently facing Shetland's communities. We have identified several areas where policy should focus on to promote a sustainable population in the medium to longer term.

Policy direction

Revising targets

While the target of 25,000 by 2025 provides an admirable level of ambition for policy-makers, it masks some more important issues around the balance and distribution of the population. We would therefore recommend the target should use the criteria outlined in 8.1 rather than setting a definitive population target.

Reviewing local public expenditure priorities

Clearly Shetland has been living beyond its means for some time and the current level of local public expenditure cannot continue. Difficult decisions will need to be made on:

- Prioritising local public expenditure; and

- A strategy for using the remaining oil fund.

Shetland has become accustomed to providing high-quality public services and facilities. But the investment made has not always been in the long-term interests of sustaining communities. The Council and its partners should start to scale back spending to levels in line with other similar sized authorities. Any additional spending from the oil fund or other reserves should be clearly focused on promoting a more sustainable economy in the medium to longer term, for example through:

- Promoting enterprise;
- Developing innovation or competitiveness;
- Generating revenue streams (for example, through renewables); or
- Developing business infrastructure (for example, broadband or incubator units).

However these issues are both sensitive and important so we would recommend a period of community consultation on which course of action to take.

Devolving jobs

If a strategy of supporting more self-reliant communities outside of Lerwick is to be successful this will require sufficient employment opportunities within these areas and the local spend these would generate. As the Council is one of the biggest employers it should take the lead in promoting this policy by devolving employment from Lerwick to the key settlements elsewhere in the Islands.

Marketing Shetland as a place to live and visit

It is clear that the quality of environment and strength of communities are what attracts people to Shetland. However there has been little effort to market these attributes in order to attract either visitors or to add value to locally produced produce. There is also an opportunity to develop niche tourism markets through branding and marketing.

Economic development

Developing the private sector

It is clear that there is a need for more business start-ups to address the weaknesses in the private sector. This will require investment in infrastructure that will support new businesses such as start-up premises, broadband and other IT facilities. Business facilities should also help to promote the policy of devolving employment opportunities out of Lerwick.

It will also require more focused awareness-raising of enterprise opportunities among key target groups such as school-leavers, women and in-migrants. Bringing in Shetlanders who have become successful businessmen and women is one way of doing this.

Adding value to natural assets

Our research has identified some potential for developing greater economic advantage from Shetland's natural assets including produce, culture and environment. This links closely with the issue of marketing outlined above. Partners could help to develop greater added value through supporting the private sector to build clusters around different sectoral groupings such as:

- Crafts;
- Creative industries;

- Eco-tourism; and
- Food and drink.

Added value could be generated through differentiating these products and marketing their quality and exclusivity.

Developing knowledge-intensive sectors

Increasingly economic development requires ways of using knowledge to create competitive advantage and add value to basic production. However this is often difficult to achieve in rural and peripheral areas where there are no large-scale Universities to promote research and development. However the North Atlantic Fisheries College already has international research specialisms in several areas and there are proposals for Shetland College (as part of UHI) to develop research programmes in specialist areas such as knitwear and music. Renewable energy will also present future research and development opportunities.

Public agencies should support the knowledge economy through identifying appropriate opportunities for research that link into Shetland's productive sectors. They can also assist through providing graduate placements and secondment opportunities and through joint ventures with research institutions.

Building community enterprise

Elsewhere in the Highlands and Islands community-based enterprises have developed innovative ways of meeting the different service needs of remote communities. With public service budgets likely to come under increasing pressure in Shetland, the community sector will need to play a greater role in maintaining and delivering local services.

Infrastructure

Housing to support economic growth

It is clear that the availability of housing is a key barrier to increasing in-migration. And there is evidence from elsewhere to suggest that housing provision can help stimulate economic and population growth. While the Council and its partners have made efforts to increase the number of house completions it will be critical that housing continues to support economic development. This will mean providing accessible and affordable housing opportunities in the various growth settlements in conjunction with the devolved jobs and business infrastructure previously discussed.

Improving broadband

In rural areas self-employment is generally more widespread than in urban areas and reliable high-speed broadband is increasingly important to running most types of business. So investing in broadband technology will be important for promoting Shetland as a location for self-employed lifestyle in-migrants and for developing indigenous business start-ups.

Community support

With an increasing need to attract in-migrants and the accompanying increased housing requirements, continued support for integrating the migrant community is essential. The efforts undertaken by the Council, Shetland College and the voluntary sector so far have been commendable. However it will be important that there are adequate resources to provide ESOL classes, language support for schools and translation services for public agencies. Support for community-based

awareness raising and integration are also necessary to help the indigenous population to embrace these new Shetlanders.

Further examples of approaches taken to integrating in-migrants elsewhere are set out in Appendix B.

Appendix A – Research Questions

Factors such as age, gender, locality, qualifications and economic activity were considered at all times as well as ethnicity/disability

What has driven population change since 2001?

- What have been the trends for each locality in Shetland, Shetland as a whole and Scotland?

What are the factors influencing migration?

- What are the characteristics of in-migrants?
- What are the characteristics of out-migrants?
- What are the characteristics of returners?
- What influences their decisions to return, migrate in or out?
- What influences the decisions of those who choose to remain, particularly in fragile areas?

What are the necessary factors for sustainable communities?

- What are cultural, social, economic and infrastructure characteristics of a sustainable community?
- What is the level and type of population required for sustainable communities?
- Which localities are most vulnerable to population change?

How will the makeup of the population in 2030 affect Shetland society, economy and services?

- What are the implications of population trends continuing as is?
- What are the implications of policies that are moderately successful in influencing population change?
- What are the implications of meeting population targets?

What actions can public agencies take to foster population and service sustainability?

- Which vulnerable localities should policy makers particularly focus on?
- What policy and support mechanisms are likely to work to:
 - Reduce the vulnerability of these areas; and
 - Support population growth and retention.

Appendix B - Best Practice

Much attention has been paid in recent years to the development and implementation of policies that can encourage population growth in rural and remoter areas. Some of the conclusions and recommendations are presented below.

Retention of indigenous population

It has been argued that there is a close correlation between population growth and economic development. This can be shown in the Highlands and Islands, where structural developments since the 1960s have helped to reverse economic decline and, as a result, has reversed the long-term trend of out-migration from the area (Nicolson, 2004). Business growth requires labour and thus it is a pull factor for economic in-migration, yet it does not necessarily guarantee population retention. Some authors suggest the traditional pattern of out-migration and declining job opportunities does not hold in Shetland, as there is still net out migration, despite job growth (Blackadder, p. 17). The author suggests there could be a mismatch between available jobs and the employment people want or are trained for (p.18). A common characteristic of rural areas which makes them more susceptible for out-migration is that employment opportunities tend to require low skills levels, pay low wages, and do not offer progression within a career. The Outer Hebrides Migration Study provides evidence of a strong link between limited job and career opportunities and out-migration (p.22-27) and recommends that economic development policy should aim towards exploring the possibility of attracting businesses and activities in sectors that provide a wider range of opportunities for men and women (Hall Aitken and INI, 2007, p.97-98). Additionally, developing an electronic communications infrastructure and Broadband access, which are crucial to e-business, is seen as necessary to improve productivity and market expansion for rural businesses (Nicolson, 2004).

For many parts of rural Scotland, education has been recognised as a key driver of out-migration, affecting the younger age groups in particular (Stockdale, 2004). It might therefore be expected that regional educational institutions would be successful in retaining young people seeking further education. Lews Castle College (Outer Hebrides), for example, sees its future role as developing specialist courses and graduate programmes to attract back postgraduate students to carry out research (Hall Aitken, 2007).

It is evident from studies elsewhere that transport on islands and remoter areas can be an issue for both settled and migrant communities, in terms of availability and cost (Hall Aitken, 2007, p.29, p 60, 64-65, p70; Kociolek, 2007, p.16). Improving road, ferry and air services to make it easier and more affordable to get around the region is argued as essential, if communities in remoter locations are to be sustained (Nicolson, 2004).

There have been different policies and practices developed in response to the issue of rural depopulation across the world. Norway, for example, supports businesses in remote areas with grants and loans in addition to reduced personal and business taxation. In some parts of the country, graduates are offered reductions from student loan repayments for every year they spend working in a remote area (Hall Aitken and INI, 2007, p116). In Ireland, a proactive approach is taken by voluntary organisations such as Rural Resettlement Ireland, where field officers assist families to leave cities and resettle permanently in rural areas. Information on mainly housing, transport and education is provided (www.ruralresettlement.com). Also

Canada has developed a proactive approach to supporting its rural, remote and northern regions. The Canadian Rural Partnership works closely with the Canadian government to support rural communities through building community capacity, supporting rural agricultural communities with rural minority languages and youth-orientated actions (<http://www.rural.gc.ca>).

Retention of foreign migrant labour

One of the interesting characteristics of the recent Central and East European A8 migration wave consists of its fairly even distribution across the country with no indication of a preference for urban areas (CRC, 2007, p. 16). Rural areas which have been facing population ageing and decline and which are struggling to fill vacancies in some sectors have been beneficiaries of this phenomenon. In the attempt to attract and retain migrant labour, detailed research and project-work has been undertaken.

A survey of migrant workers in the Outer Hebrides revealed that most migrants did not have defined plans about their length of stay, and many left their decisions for the future undefined (Hall Aitken and INI, 2007a, p.40). This may suggest that, depending on their situation (housing, employment, feeling of being welcome etc.), they are open towards the prospect of resettlement.

The most common recommendations regarding action by public agencies are to focus on the following major issues (UHI and INI, 2005, p78-82; Hall Aitken and INI, 2007a, p. 52-58; Kociolek, 2007, p.24-27, Jentsch, 2007, p. 3):

- Access to information and access to independent advice and support – to families and to individual migrants;
- Promotion of good relations and community cohesion, for example, through interaction between different ethnic and cultural groups (see also below)
- Promoting inclusion – for example, through ESOL provision
- Addressing underemployment – through a strategy of matching skills with employment opportunities.

Given that ‘integration’ is commonly understood as requiring changes from migrants as well as from host communities, it needs to be noted that the latter also need support when the focus is often on the migrant population and their needs. Community support may include creating opportunities to interact with other cultures, and information about the new community members, including the benefits they can bring. At a policy level, ‘integration’ may refer to a type of engagement in which stakeholders from different ethnic and cultural groups participate, thereby promoting interaction. This can result in ‘mainstreaming’ so the development of policies and public provisions is inclusive of different ethnic and cultural groups, thus promoting equality (Jentsch, 2007, p. 3).

Many areas in Scotland have created multi-agency working groups, which aim to develop strategies and specific initiatives around the issue of migrant workers (for example, there are Migrant Worker Forums in Lochaber, Argyll, Dumfries and Galloway and a Highland-wide In-migration Action Group). These groups help to coordinate action by local agencies and provide a platform for information exchange.

The “Supporting Inward Migration” initiative could be given as an example of a multi-agency project within the Highland Council area. The project is aimed at migrant workers and employers who have migrant worker employees. It delivers services within four main areas of support: English classes, advice, family support and fire safety (Supporting Inward Migration [online]).

S.T.E.P, the “Migrant Worker Support Project” in Northern Ireland, operates on the basis of a similar idea. The Migrant Support Centre, that has been established to run the project, delivers its services in a range of languages, covering 9 different areas of expertise, including ESOL (provision, tutor training, quality checking), advice (citizen, employment rights, housing, immigration), interpretation and translation services, community development work and policy work.. The project – initially funded by public money – has been designed to be self-sustaining, with time (Migrant Workers Support Project [online]). This highlights opportunities and constraints of the role of the voluntary sector in promoting the integration of migrants: on the one hand, voluntary organisations are diverse and flexible, and thus well suited to identify and address migrants’ needs. However, examples in Ireland have also demonstrated that unless the state co-ordinates such endeavours and facilitates a long-term strategy, an overly complex structure of programmes and initiatives may result. They may only be short-lived and project directed – a situation which obviously should be avoided (Jentsch 2007; Mac Einri 2007).

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REPORT

To: Development Committee

05 June 2008

From: Economic Development Officer

DV029-F Redevelopment of Fair Isle Bird Observatory

1.0 Introduction

- 1.1 The existing bird observatory on Fair Isle is 40 years old, and has reached the end of its functional life. The building is poorly designed and inadequate both technically and functionally, and suffers from severe operational constraints. If the observatory is not replaced with a new facility, its closure will be imminent, with far-reaching economic and social consequences for Fair Isle and Shetland as a whole.
- 1.2 This report appraises the existing bird observatory in Fair Isle; the economic and social benefits derived by Fair Isle and Shetland as a whole from the existence of the bird observatory; and the case for redevelopment of the observatory.
- 1.3 The report includes estimates for the capital investment required to build a new observatory, and details of a State aid compliant funding package that has been approved in principle by the Scottish Government State Aid Unit.
- 1.4 The Development Committee is asked to consider the contents of this report and make a decision regarding an investment of £1.15m into the building of a new bird observatory on Fair Isle.

2.0 Links to the Corporate Plan

- 2.1 The Corporate Plan contains policies to encourage sustainable development. Specifically, ("Tourism" & "People and the Community") and Sustainable Society ("Culture, Recreation and Community Development") relate closely to the economic and social content of this report.

3.0 Background

- 3.1 The first Fair Isle bird observatory was set up 60 years ago in 1948, operated by the Fair Isle Bird Observatory Trust (FIBOT) from wartime wooden huts near the harbour. Subsequently in 1968 a new wooden building was erected for use as an observatory further up the hill from the harbour. This was refurbished and given a block-work exterior in 1988, and has remained the same for the intervening 20 years to present, apart from routine maintenance and repairs.
- 3.2 The design and specification of the building is far from ideal for the Shetland climate, and this has contributed to the gradual deterioration of the building. The building has reached the end of its life, and both maintenance issues and running costs are becoming increasingly burdensome and prohibitive. There are serious issues with water ingress from the flat roof; the plumbing system; the electrics throughout the building; the finish of both interior and exterior (aesthetic and practical alike); the extremely poor insulation; and inadequate telecommunication systems.
- 3.3 Moreover, the expectations of visitors staying on Fair Isle have changed significantly from the 1960's, and the current communal bedrooms and bathrooms need to be replaced with a range of ensuite twin, family and shared bedrooms more reflective of demand.
- 3.4 FIBOT currently undertakes two main activities. The first is carrying out scientific research and monitoring, and providing facilities for others to do the same (Fair Isle being internationally recognised for its wildlife, and designated accordingly as a Site of Special Scientific Interest (SSSI); a Special Protection Area (SPA); a Natura 2000 site; a National Scenic Area (NSA); and a Geological Conservation Review Site).

The second core activity undertaken by FIBOT is providing accommodation with full board for birdwatchers and other visitors to Fair Isle. This is complemented by their provision of a range of services for visitors including:

- Welcome pack and talk
- Ranger service
- Self guiding leaflets
- Guided walks
- Slide shows
- Tourist information point
- Trips to craft producers and the museum
- Shop
- Bar and tuck shop
- Library.

- 3.5 FIBOT commissioned a Feasibility Study to examine the proposal to build a new bird observatory to replace the existing building. This work began in 2006, concluded in early 2008, and was undertaken by AB Associates in conjunction with Locate Architects and Stephen Johnston QS. The Feasibility Study included site and specification appraisal; outline costs; a comprehensive Business Plan; a detailed Socio-economic Impact Assessment; and finally an Indicative Funding Package (see Appendix 1 - <http://www.sic.gov.uk/services/edu/default.asp>).
- 3.6 The works undertaken to date provide an indicative overall project cost of £3,950,000. This figure takes into account the extra costs involved in undertaking a major building project in Shetland, and Fair Isle in particular.
- 3.7 The observatory would be built on the site of the existing observatory – other nearby sites all come with their own disadvantages that would add to the cost of the new building. It is clear the original site was chosen carefully in the 1960's, and is still the best location available 40 years later. This choice of site would mean that the bird observatory would have to close for a year while the building works were undertaken.
- 3.8 The contents of the Feasibility Study will provide the framework for subsequent analysis of the FIBOT proposals in this report, as follows.

4.0 Details of Proposed New Observatory on Fair Isle

- 4.1 The proposed new observatory is designed to address the technical issues the current exhausted building is labouring under; to meet the high expectations of the 21st century tourist visiting a unique destination like Fair Isle (a destination with an unsurpassable mix of environmental, heritage and cultural credentials); and to allow the observatory building to continue to provide a social focus for the resident population of the island.
- 4.2 The specification was therefore to include the following critical features:
- A highly energy efficient building, with the inclusion of renewable energy measures;
 - More aesthetically pleasing than the existing facility;
 - Low maintenance and with a 50 year lifespan;
 - A pitched roof;
 - A combination of family, single and twin rooms, all ensuite.
- 4.3 The final design includes these features, and proposes a building with maximum prefabrication where possible in order to minimise costs of on-site building. The initial indicative cost was close to £5m; this was unacceptably high, and through a combination of design and specification changes this figure has been amended to £3,950,000. On the basis that the building is around 1400sq.metres, this represents a cost per square metre of £2,240. If this project were in mainland Scotland the cost per square metre would be around £1,800

– the 25% premium reflects the distant location of Shetland and Fair Isle in particular.

- 4.4 The new building will have 32 available bedspaces, and will provide the facilities (ensuite, telecommunication links etc) that both tourists and visiting academics expect. There is also staff accommodation incorporated in the design; facilities to offer full-board catering; laundry facilities; an integral shop for visitors to buy observatory related merchandise etc; a lounge, bar and library; and research facilities for the ongoing scientific work the observatory undertakes.

5.0 Analysis of the Socio-economic Impact of the Existing and Proposed Bird Observatories on Fair Isle

5.1 Economic

- 5.1.1 **FIBOT** - The observatory currently generates a very small overall annual profit. Over the past 6 financial years this has averaged £2,145 per annum. On the basis of a new observatory being in place, profit projections have been generated for the first 3 years following construction, with a range of assumptions to introduce some sensitivity analysis into the figures. In summary, three scenarios have been generated, as follows:

	Year 1	Year 2	Year 3
Pessimistic (assumes 2,200 occupied bednights)	£4,716	£4,804	£4,298
Most likely (assumes 2,400 occupied bednights)	£1,561	£1,015	£1,512
Optimistic (assumes 2,700 occupied bednights)	£10,975	£9,743	£10,228

- 5.1.2 The break-even point is likely to be 2,350 bednights, which equates to 470 visitors. It is worth noting that these figures err on the side of caution, as in the past 2 years the observatory has achieved occupancy of 2,700 - 3,000 bednights.
- 5.1.3 **Fair Isle** - The positive economic impact of the observatory goes far beyond the modest profit it makes for FIBOT. In the context of Fair Isle as a whole, and Shetland overall, the effect of Fair Isle bird observatory is profound.
- 5.1.4 In Fair Isle, the observatory employs 10 people in the open season, and 2 year round. Some of these staff are relatively low paid in monetary terms, but as seasonal research staff working for FIBOT they gain considerably in terms of conservation experience and an internationally esteemed reference on their curriculum vitae. This equates to a wages and salaries expenditure of £31,307, of which an estimated 40% is paid to people in Fair Isle, as opposed to seasonal staff from outwith the isle.

- 5.1.5 All bar purchases made by the observatory are made at the Fair Isle shop; 98% of hostel purchases are made in Fair Isle; and 10% of the observatory's shop purchases are made in Fair Isle. Finally, 20% of freight expenditure and 10% of post and phone costs are made in Fair Isle. Based on the 2005/2006 financial year, the direct input from wages and expenditure of the observatory into the Fair Isle economy was £48,007.
- 5.1.6 The Fair Isle shop estimate that the bird observatory and its visitors account for 35-40% of its business per annum.
- 5.1.7 Furthermore, it is estimated that on average observatory visitors spend £15,785 on arts and crafts products while visiting Shetland, of which £10,082 is spent on Fair Isle itself.
- 5.1.8 **Shetland** - The operations of the observatory also directly impact on the Shetland economy outwith Fair Isle. 50% of expenditure on travel goes to providers in Shetland; 80% of freight costs goes to Shetland organisations; 50% of repairs and renewals; 20% of sales and marketing; and 33% of other operational costs all go to Shetland businesses. Based on the 2005/2006 financial year, direct input from observatory expenditure into the Shetland economy was £18,523.
- 5.1.9 Data from a 2005/2006 visitor survey indicates that 70% of observatory visitors spend at least one night elsewhere in Shetland. Based on observatory visitor numbers for 2006 (550) and an average daily expenditure of these visitors of £54, this is worth an additional £20,790 to the Shetland economy.
- 5.1.10 Locally based Shetland Wildlife run 2 trips to Fair Isle during the bird season, and this equates to £11,900 turnover for the company – without the accommodation facilities offered by the observatory (and indeed the attraction of a bird observatory in its own right), the company would not be able to offer these trips.
- 5.1.11 In recent years, 75% of trips to Fair Isle have been made by air – based on a total of 550 visitors to the observatory in 2006, this equates to £25,575 expenditure on flights, and £770 on ferries.
- 5.1.12 **Multiplier effects** – taking into account indirect and induced impacts of the bird observatory on the local economy (using the 2005 Shetland Input/Output Study multipliers), and based on a 2005/2006 observatory turnover of £130,360, an additional £105,331 of additional impacts were generated in the Shetland economy. Furthermore, in terms of employment, the 6 FTEs the observatory employs result in nearly 2 FTEs elsewhere in the Shetland economy.
- 5.1.13 **Effect of observatory closure** – Taking all the above into account, there would be a gross loss of almost £350,000 per annum and 8 FTEs to the Shetland economy were the bird observatory to cease to exist in Fair Isle.

5.1.14 On the basis of the FIBOT Business Plan projections for the most likely scenario (and this appears to be a conservative estimate), the impact of a new observatory would be approximately £215,000 per annum in direct terms, and £370,000 in gross terms for the Shetland economy as a whole.

5.2 Social

- 5.2.1 From its inception in the 1940's the sustainability of the island community as a whole was always a central tenet of FIBOT's activities in Fair Isle. This vision has stayed true to the current day. While harder to quantify than economic outcomes, the positive social aspects the observatory delivers are nonetheless considerable, and indeed critical to the future of the island.
- 5.2.2 The observatory, providing as it does facilities for groups, organisations, VIP's, artists and poets as well as visiting birders, is an integral part of island life. It brings the small Fair Isle community a rich diversity of visitors and a wider social circle that the community integrates with during meals at the observatory, island dances, and the observatory's "Fair Isle Thursdays" to name but a few. With no pub, restaurant, club or other mainland attraction, the opportunity the bird observatory affords to socialise is essential.
- 5.2.3 Community activities reliant on numbers are frequently aided by the input of bird observatory staff, and are seen as vital to the overall function and prosperity of the isle. The observatory and the isle complement one another through many work activities that simultaneously offer a social opportunity to those involved.
- 5.2.4 It is evident that the FIBOT and the observatory itself are fully integrated into the island community, and are an integral part of its survival and health – compare Fair Isle to other remote island communities throughout Scotland. The local community is represented on the Trust itself, and the proposal to build a new observatory can be seen to be a community project helping to sustain an island community as much as an economic or environmental project in isolation. The community have expressed their full support for the proposed new observatory.
- 5.2.5 The observatory contributes significantly to the demand for transport services, in particular scheduled flights to the island. 30% of all transport services are guests staying at the observatory. This has a positive effect for the community as a whole, as this demand generates an enhanced transport provision that islanders can take advantage of, leading to a better quality of life.

- 5.2.6 **Effect of observatory closure** – the social impact of closure of the bird observatory would be a significant disruption and threat to the island's survival. There could be a fall in island population and the school roll; significantly reduced transport links (c.f. Foula); reduced local shop service; a loss of household disposable income; and last but not least greater social isolation.

6.0 Funding Mechanism

- 6.1 The FIBOT commissioned Feasibility Study provided an indicative funding package based on funding coming from the following sources:

FIBOT funds	26%	£1,000,000
National Lottery	22%	£ 900,000
ERDF	13%	£ 500,000
Highlands and Islands Enterprise	13%	£ 500,000
Shetland Islands Council	26%	<u>£1,000,000</u>
Total		<u>£3,950,000</u>

- 6.2 This was based on a number of assumptions regarding the application of State aid legislation to a charitable trust such as FIBOT, and what status (public / private) monies from various sources constituted.
- 6.3 These assumptions were inaccurate – the status of the applicant is irrelevant, as it is the nature of the project that is examined for State aid legislative compliance; National Lottery funds are now unequivocally classified as publicly sourced. As this project involves a commercial element (i.e. the provision of full board accommodation for paying guests), this would mean State aid limits would be applied to the project as a whole.
- 6.4 This would mean a funding split of 30% public funds / 70% private funds. FIBOT would have to find £2.8m - an impossible task for an organisation of their size, nature, and turnover.
- 6.5 The Council's Economic Development Service proposed an alternative funding package, whereby the commercial and non-commercial elements of the project were clearly defined, and treated separately. In this model, 20% of the project is commercial (visitor accommodation; and ancillary parts of the building including the shop and the visitors laundry); and 80% can be deemed non-commercial in nature.
- 6.6 This distinction allows the two elements of the project to be treated differently. The commercial element can be funded 50% public / 50% private under SME Block Exemption XS/30/2007. The non-commercial element is exempt from State aid issues, and can be funded from any mixture of public and private sources.
- 6.7 This model for Fair Isle bird observatory was proposed to the Scottish Government's State Aid Unit, and correspondence received on 2 April 2008 confirmed that the model was workable.

6.8 Under this model, the total cost would be split as follows:

Commercial element (20% of total)	Public funds (SIC / HIE)	50%	£ 395,000	
	Private funds (FIBOT)	50%	£ 395,000	
	Subtotal			
Non-commercial element (80% of total)	FIBOT funds	26%	£ 821,600	
	National lottery	22%	£ 695,200	
	ERDF	13%	£ 410,800	
	Public funds (SIC / HIE)	39%	£1,232,400	
	Subtotal			
Total				<u>£3,950,000</u>

6.9 This model means that FIBOT will have to provide a combined total of £1,216,600 (approximately £217,000 more than the original package suggested); and the Council and HIE will provide a combined total of £1,626,400 (approximately £126,000 more than the original package suggested). While this represents a greater demand on all three parties, it does so in a model that represents the only way in which the proposal can be realised (FIBOT not having the funds to cover 70% of the cost of the proposal, let alone the full amount).

6.10 Early discussions between the Council's Economic Development Service and HIE suggest that this proposal may find sufficient favour when formally appraised (this has not happened at time of writing) to attract HIE funds to the level of £500,000.

7.0 Proposal

7.1 On this basis, there remains a balance of approximately £1.15m to fund, and it is proposed that the Committee considers a grant of this sum for the project.

8.0 Financial Implications

8.1 The total project cost breaks down as follows:

Main building work	£3,135,000
Demolition and clearance & garage / workshop	£ 95,000
Subtotal	£3,230,000
Contingencies 5%	£ 161,000
Subtotal	£3,391,000
Professional fees 12% + planning and building warrant	£ 405,000
Subtotal	£3,796,000
Finishings and equipment	£ 150,000
Total	<u>£3,946,000</u>

- 8.2 The budget for this project is being sourced from existing funds held by the Shetland Development Trust. In these circumstances, where a funding source exists without impacting on the Council's overall budget, capital projects supported by the Development Committee in relation to the Council's Economic Development Policy Statement, can be assessed against these policies to establish priority
- 8.3 The timing of the project is such that whilst the majority of costs will be incurred during the building phase (anticipated in 2009, assuming a builder can be found), the expenditure is likely to be spread over 3 financial years, with some costs incurred upfront and the possibility of residual costs in the early months of the year following the main build.

9.0 Policy and Delegated Authority

- 9.1 The proposal that forms the basis of this report satisfies a number of Council policies. This report has been prepared based on the following policies:
- 5. "Continue to develop Shetland as a tourist destination, through development of high quality products and services";
 - 26. "Support community enterprises engaged in economic activities".

These policies were approved by the Development Committee on 24 April 2008 (Ref: 01/08) and by the Council on 14 May 2008 (Ref: 55/08).

The provision of a new bird observatory in Fair Isle is a delivery mechanism for both the above policies.

- 9.2 The Development Committee has delegated authority to implement decisions within its remit for which the overall objectives have been approved by the Council, in addition to appropriate budget provision, including:
- Economic Strategy
 - Europe

As the subject matter of this report is covered by existing policies the Committee does have the delegated authority to make a decision.

10.0 Conclusions

- 10.1 The existing bird observatory building on Fair Isle has reached the end of its working life. The fabric of the building is failing, and its design is unsuitable for both its location and the demands of visiting tourists and academics alike.
- 10.2 The building's shortcomings are so profound that it is beyond remedy in the existing structure. The operators of the observatory, Fair Isle Bird Observatory Trust (FIBOT) propose building a new observatory on the site of the existing facility, at a cost of £3,950,000.

- 10.3 The proposed new observatory will have enhanced visitor and working facilities, be low maintenance and highly energy efficient, and will have a lifespan of 50 years. FIBOT estimate that these measures will allow them to extend their tourist season by a further 3 weeks, to the benefit of the isle as a whole.
- 10.4 A funding mechanism has been identified that satisfies State aid requirements (see 6.3-6.6 above, and Appendix 2). In addition to external sources of funding outwith Shetland, FIBOT will provide £1.2m themselves, leaving a balance of £1.65m to be sourced from public funds. On the basis that HIE could provide £0.5m, this leaves a balance of £1.15m.
- 10.5 The bird observatory is integral to the viability of the Fair Isle community, providing significant employment and income to the island, and in addition a vital positive social benefit, bringing a variety of people to an otherwise remote community throughout the year; providing a social focus point and facility in the island; and enhancing the demand for essential transport links with Shetland.
- 10.6 There would be a gross loss of almost £350,000 per annum and 8 FTEs to the Shetland economy were the bird observatory to cease to exist in Fair Isle. What is harder to quantify is the profound social impact the observatory has in Fair Isle, and the positive ambassadorial role it plays for Shetland in the UK and beyond. Fair Isle bird observatory is globally renowned in environmental circles, and casts a 'halo effect' over Shetland as an environmental destination for tourists.

11.0 Recommendations

- 11.1 It is recommended that the Development Committee agree to provide Fair Isle Bird Observatory Trust with a grant of £1.15m for the purpose of building a new bird observatory on Fair Isle.

Our Ref: JD/KLM
Date: 28 May 2008

Report No: DV029-F

Fair Isle Bird Observatory

Feasibility Study Stage 1 FINAL COVERING REPORT



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Appendices

- 1.1st Progress Report and Site Options Report
- 2. Business Plan
- 3. Economic and Social Impact
- 4. Funding Opportunities

1. Background

In May 2006 A B Associates was commissioned in conjunction with Locate Architects and Stephen Johnston QS to undertake a Feasibility Study into the proposal to build a new Bird Observatory in Fair Isle for FIBOT.

An initial assessment had been made of the option of refurbishment v new build and it was agreed that given the poor state of the existing building it was not realistic to refurbish or partly rebuild and that the best option was a completely new building.

As a result the immediate questions to address in this study were:-

- What is the best location/site?
- What should be in the spec for a new build?
- What could a new build look like i.e. outline plans?
- What is the likely cost of a new build?
- What is the economic and social impact of the project on Fair Isle and further afield?
- What is the viability of the project – business plan?
- What are the main funding opportunities?

The initial plan was to complete this stage by September 2006. The first draft reports were submitted in August 2006 with a recommendation that the existing site was the best. A new building was fitted alongside the existing one so that it could remain open while the new facility was completed and there was no break in service, as was required in the remit for the study.

There followed a lengthy period of discussion and consideration by the Trust which resulted in agreement that the best site was where the existing building was located and that this would mean having to close for a season while it was demolished and rebuilt on the same site, rather than the new one being on a slightly different site with the old one continuing in operation until the new one finished. Thus it was not until after meeting with Roy Dennis in May 2007 that work was recommenced in order to complete this stage of the project. Due to other work commitments it has not been possible to get plans reworked, costings and final draft reports submitted until the end of November.

This report provides an overall summary of the final findings of this stage which should provide the basis for the Directors decision on moving forward to the next pre construction stage which will involve :-

- Going out to tender for a design and build contract
- Drawing up detailed plans
- Seeking consents e.g. planning
- Seeking funding

All of this is necessary before it is possible to go ahead with the construction.

2. Site Options

A number of sites in the vicinity of the existing building were investigated as well as the site of the existing building. Each of these were evaluated for their suitability in terms of exposure, impact on the environment, ground conditions, access, views from the building etc.

Part of the remit was the requirement to maintain the existing building in operation until the new building was completed. However the site option assessment concluded that the existing site was the best one on all counts. As a result the first outline plans were drawn up for a building as close to the existing one as possible .

The initial site options report is attached in Appendix 1.

3. Specification for the Building

The space and functional requirements for the new building were identified by the Directors and staff of FIBOT as well as a number of other requirements such as :-

- Highly energy efficient building and inclusion of renewables
- Aesthetically more pleasing than the existing one
- Low maintenance and 50 year life
- Pitched roof, no windows in roof

The scale of the proposal is very similar to the existing one with scope for some improvements and a different configuration of bedspaces and bedrooms. Instead of a mix of single, twin and family rooms it was agreed to have 2 family rooms and 12 twin rooms to improve flexibility and give 32 bedspaces overall, which is 2 more than the existing 6 single, 2 family and 5 twins.

A copy of the detailed spec is in an Appendix to the Business Plan that is attached in Appendix 2

4. Outline Plans

As mentioned above it was decided not to go with the first proposal for a building alongside the existing building, but to go with demolition and new build on the same site as existing building.

As a result a second set of outline plans have been drawn up and are attached in an Appendix to the Business Plan in Appendix 2. The plans have been produced on the basis of the spec and a number of criteria such as :-

- Max prefabrication to reduce construction time on site and cost
- Max energy efficiency while being healthy
- Max environmentally friendly and sustainable building
- Use materials that minimise environmental impact and are safely disposable at the end of its life
- Min use of concrete and other heavy materials

As a result the building has the following characteristics :-

- 2 storey building with pitched roof with minimum penetrations
- Timber clad exterior
- Prefabricated insulated panels
- Metal clad roof rather than turf as suggested
- Efficient oil boiler, energy efficient appliances, 10 sq m solar heating panels, and two thermal stores. Wind turbines , air to air heat pump and photovoltaics to be considered. The cost for installing a 6 KW wind turbine is estimated to be around £30,000 at current prices.
- Rainwater harvesting store and water conservation fitments.

However it should be noted that the wind turbine has not been included at this stage due to the need for additional consultation and bird monitoring work to establish feasibility. This will be pursued as a separate project though the service systems will be designed to enable wind power or other renewable connections at a later date.

5 Outline Costs

The QS has taken the outline plans and spec and calculated a likely cost based on local knowledge and understanding of Shetland and Fair Isle conditions and the state of the construction industry.

The local construction sector is very busy at the moment and there is a high level of projects in the pipeline which means there could be difficulty getting a builder and that prices will not be so competitive. Some of the building projects (excluding civil works) are 400 homes over 5 years for HHA, new schools in Lerwick and Mid Yell, NHS investments, 100 houses for SIC over 6 years, Toll Clock extension, Scatsta airport investments, Scalloway industrial units, LPA investments, Saxavord Unst, and new music/arts centre.

The resulting outline costs are estimated to be :-

Main building work	£3,135,000
Demolition and clearance and Garage/workshop	£95,000
Sub total	£3,230,000
Contingencies 5%	£161,000
Sub total	£3,734,500
Fees 12% plus planning and building warrant	£405,000
Sub total	£3,796,000
Furnishings and equipment	£150,000
Total	£3,946,000

On the basis that the building is around 1400 sq m this represents a cost per sq m of £2,240. If this project had been in mainland Scotland the cost per sq m would have been around £1,800 to give a total cost of £2.5m as against £3.1m. In other words the combined effect of the Shetland and Fair Isle factors raises the basic price by a quarter.

The estimate is considered the best that can be made at this stage based on the outline plans. It could be higher if the circumstances were less competitive. It is possible that the overall cost could rise to over £4m.

On the other hand savings may be possible by lowering the spec, changing materials and type of construction. It may be that the figure for the main building cost could fall below £3m. However given that detailed costs are not yet worked out, the demolition costs could be higher, and there could be additional elements added on, it would seem prudent to stay with the overall £3.9m figure as a working hypothesis for the business plan and fund raising, while working to achieve savings and lower the overall cost.

It is also worth remembering that there are likely to some additional financing costs through short term borrowing to bridge the gap between incurring expenditure and receiving grant funding. These are costs that will have to be met from FIBOT's own resources.

The report from the Quantity Surveyor is attached in Appendix D of the Business Plan which is in Appendix 2 of this report.

6. Business Plan

A full business plan has been drawn up with financial projections (Cash Flow, Profit & Loss, and Balance Sheet) for the first three years of operation as well as the lead up to it.

The 2008 season is assumed to be slightly down on 2007 which was a record year and 2009 is scheduled for closure therefore there is no hostel income and there could be a loss of around £31,000 over that year, in part due to the cost of the planning and building warrant applications.

Thereafter a range of 3 scenarios have been produced to show the effect of different levels of visitors. The 3 levels are 2200, 2400, and 2700. The highest level is based on the best results achieved so far while the lowest reflects earlier lower occupancy levels. Thus they take account of differing levels of success from marketing and different market conditions. The middle figure is certainly considered to be achievable and yields a net profit before tax of around £1,500 p/a. The facility should be able to break even with 2350 bednights and 470 visitors.

Some of the key assumptions include:-

- 32 available bedspaces
- Season extended by three weeks to 30 weeks
- Average length of stay remains at 5 nights
- Room charges rise to £60 for a single, and £55 for a twin per person including VAT, from £44 and £39 at peak times

Although the room rates have been raised the assumptions on bednights remains conservative to compensate for any resistance to the rise in charges. The full business plan and projections are included in Appendix 2.

7. Economic and Social Impact

The report attached in Appendix 3 describes the current and recent socio economic situation in the island. It shows that the current Observatory has a significant impact on the island through its employment (10 people), turnover (£130,000), and the visitors attracted who spend money locally. The turnover represents over 20% of the total Fair Isle output and its purchases at the local shop are crucial to its survival in

its present form. The FTE employment of 6 represents about 14% of the total FTE employment on the island

The Observatory is also important to the transport services since 30% of the users stay at the Observatory.

In addition the Observatory is a key strategic tourism product that draws people to Shetland who might not otherwise come, and who stay in other parts of Shetland as well. Therefore it has a wider impact than just on the island. It is estimated that the Observatory in 2005/6 had a gross impact on the economy of £235,690 of output and 8 FTEs.

If it were to close there could be a gross loss to the economy of Shetland of around £350,000 p/a and 8 FTEs. This is considered a conservative estimate. The effect on Fair Isle would be even more dramatic with a fall in population, much reduced transport service especially air, possible closure of shop and a threat to the future of the school, and loss of craft sales income.

The impact of the proposed new Observatory should be slightly higher given that it will provide more attractive accommodation and thus could have more visitors. This is estimated to be in the order of £370,000- £380,000 gross impact in terms of output p/a. Over a 10 year period this provides a return to the community equivalent to the total capital cost of the new facility.

It is clear therefore that the Observatory has wider employment and expenditure impacts than just on Fair Isle since it is a primary attraction in its own right and visitors who come to the Observatory spend money throughout Shetland. This is in addition to its crucial socio economic role in Fair Isle itself.

It is also important to stress the beneficial social impact of the facility at both the community and individual levels due to the close working between the community and FIBOT. If the facility were to close it would cause significant dislocation and it could lead to a fall in population and school rolls, reduced transport services, and greater social isolation (for more detail see appendix3).

8. Funding Opportunities

The estimated capital cost of nearly £4m for the whole development presents quite a challenge for obtaining funds. It is clear from the business plan that the project cannot provide a return to repay anything but a fraction of the capital costs. The value of the project is in its wider impacts in sustaining the community on Fair Isle and the impacts throughout the rest of Shetland. Thus the case for funding has to be on the wider socio economic and community role for the project. In addition there is wider value to the environmental research community through the research that is and can be carried out there. It is an integral part of the national and indeed global

network of Observatories and makes a significant contribution to ornithological research and the wider understanding and interpretation of the natural environment.

The report attached as appendix 4 identifies a range of funding sources that could be approached in the first instance, and also identifies a number of issues and obstacles that need to be overcome in obtaining funding.

9 The Next Steps

As indicated at the beginning the next steps involve going out to tender for a design and build contract in order to get detailed designs and plans drawn up, obtaining the necessary consents, and seeking funding.

One of the first tasks is to secure funding to undertake this work based on an estimate of what this might cost through tendering the work. This could be done through an advert in the European Official Journal, Shetland Times, Orcadian, P&J, seeking expressions of interest with a PQQ from contractors who would like to undertake the work following a design and build approach rather than the conventional two stage process. If this route is chosen then it would be prudent to have a clause that makes it clear the actual construction may not proceed unless the plans and costings are acceptable. Given the building workload over the next few years in Shetland and indeed elsewhere it would be advised to try this route.

It is recommended advisable to advertise the project in the European Journal in order to satisfy the procurement rules of potential funders given that the total cost is above the threshold of £3.5m for capital projects. Unfortunately this will cause some delays initially which can hopefully be recovered later in the process.

The cost of project management, seeking funding, preparing designs and plans and costings, and seeking consents is subsumed within the 12% allowance for fees of around £400,000 for the whole project. The cost of the immediate pre construction phase over the next year could amount to at least half of the total. It is suggested this is split into two parts:-

- (a) Overall project management and seeking funds based on outputs from this stage. This would be the subject of a separate contract that is not part of the design and build contract. An indicative costing could be as follows:-

Completing 3 main applications plus some smaller ones – 18 days at £350 per day is £6,300; management of tender process – 5 days at £350 per day which comes to £1,750; overall management – 2 days per months over 12 months is 24 days at £350 per day which comes to £8,400. Thus the overall total could be £16,450 spread over the coming year.

- (b) Preparing detailed designs, plans, and costings, and seeking consents based on the outline plans and costings prepared so far. This would be advertised as

part of the design and build contract and an allowance made for an initial tranche of £150-200,000 to cover all the fees of architect, structural engineer services engineer, quantity surveyor and contractor, as well as (a) above.

A revised indicative timetable for the remainder of the project is given below. This shows a planning and preparation phase from April 2008 to April 2009 (12 months), with construction and fitting out from May 2009 to April 2010 (12 months). This is a tight time schedule and assumes everything goes according to plan. However there are risks of slippage especially with the planning process and funding delays.

Revised Overall Timescale

Task	12	2008												2009												2010							
		1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8
Build/Site Options																																	
Outline Plans																																	
Business Plan																																	
Econ Impact																																	
Funding																																	
Prepare tender expression of interest																																	
Costed D&B tenders																																	
Detailed Plans																																	
Consents																																	
Funding																																	
Clear out building																																	
Demolition																																	
Construction																																	
Building open																																	
Claims																																	
Project Management																																	
Meetings																																	

Fair Isle Bird Observatory

Indicative Funding Package



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1. Introduction

A project such as the FIBO proposal could potentially attract funding from a wide range of sources for different elements of the work. The purpose of this paper is to review these sources and identify some of the most likely ones that should be pursued further during the next phase.

Most funding sources will finance the capital cost but some may also contribute to initial running costs.

The first assumption to be made is that the existing revenue grant funding will continue at or around the same level. This is as follows:-

JNCC	Seabird Monitoring	£8000
SNH	Ranger Service	£6500
Other small grants/donations		£6500
Total		£21000

A long list of possible sources has been identified and is contained in the first section that follows.

The sources of funding are reviewed in relation to the different elements of capital cost such as:-

1. demolition and ground clearance, landscaping, environmental improvements, increasing biodiversity
2. main building works – bedrooms, warden's house, public areas, domestic areas, scientific facilities
3. interpretive displays/materials
4. energy efficiency measures and renewable energy
5. promotion material
6. electric vehicle

2. Main Sources of Funding for the Project

The main sources have been put together according to type and origin.

- FIBOT
 - Own resources
 - Fund raising from members and Friends of Fair Isle, RSPB, NT, local, visitors
- Shetland
 - HIE Shetland
 - Environmental improvements - grant
 - Feasibility study phase 2 – grant
 - Capital cost – accommodation scheme – grant and loan
 - Community economic development - grant
 - Promotion and marketing – grant

- Shetland Islands Council
 - Environmental improvements - grant
 - Community Services – grant up to £100,000
 - Economic Development Unit/Development Trust – grant and loan
- Shetland Islands Charitable Trust – grant
- Shetland Amenity Trust - interpretive aspects – small grant up to £5,000
- Scottish/National
 - SNH – small grant up to 50% of eligible costs
 - RSPB – grant/in kind
 - DTI Low Carbon Buildings – up to 50%, up to £30,000
 - Energy Savings Trust –grant for energy elements
 - SCHRI –grant for energy elements– up to £100,000
 - National Trust – in kind
 - Lottery – grant
 - Big Lottery *Investing in Communities* – up to £1m
 - Heritage Lottery – up to £500,000 if of national importance
 - Awards for All – up to £10,000
 - Crown Estate – grant of up to £10,000
 - Scottish Executive Initiatives
 - Rural partnership grants
 - Scottish Community Foundation small grants – up to £5,000
 - Sustainable action grant - £40,000 p/a for 1 to 3 years
 - Increase Programme – grants of £5,000 to £30,000
 - Trusts
 - Hanson - unlikely
 - Gannochy – up to £20,000 possible
 - Esmee Fairbairn – average £50,000 grant
 - Lloyds TSB
- European
 - Structural fund programme – new programme 2007 - 2013
 - ERDF,
 - EARDF, Rural Development Convergence money
 - Interreg
 - Leader – small grants for specific elements
 - Life + programme – new programme 2007 - 2013
 - Council of Europe
- International Trusts
- Corporate Sponsors e.g. BP re solar panels
- Wealthy benefactors

Most of these sources are likely to provide relatively small amounts of money; however one or two could provide significant amounts. Locally these include

HIE Shetland, SDT/SIC, while outside Shetland these could be the Lottery, a major trust or benefactor.

The EU structural fund programme could also be a source of a significant amount of money as the project could qualify under at least one of the ERDF measures in the new programme. The programme was opened for applications last autumn (2007).

3. Indicative Funding Package for Main Elements in Project

	Indicative Cost	Source	Type	Amount
1. Main building work including fixtures and fittings, and fees	£3.896m	HIE Shetland, SIC,SDT,CT, ERDF Own funds Lottery Other	Grant and loan	£500,000 £1,000,000 £500,000 £1,000,000 £900,000
	£3.896m			£3.900m
2.Demolition/environmental improvements	£50,000	HIE Shetland, SIC, own	Grant	£30,000 £15,000 £5,000
Total	£3,946,000			£3,950,000
Additional Aspects				
3.Interpretive aspects	£15,000	SNH RSPB, SAT	Grant	£10,000 £5,000
	£15,000			£15,000
4.Energy aspects	£70,000	EST, HIE, corporate sponsor	Grant, in kind	£20,000 £30,000 £20,000
	£70,000			£70,000
5.Financing Costs	£210,750	FIBOT		£210,750
Total	£4.241m			£4.245m
6 Promotion and marketing	£10,000	HIE/SIC FIBOT	Grant	£5,000 £5,000
	£10,000			£10,000
7. Electric vehicle	£25,000	Corporate sponsor	In kind	£25,000
	£25,000			£25,000
TOTAL	£4,276,750			£4,280,750

In summary the funding package for the construction of a new enhanced Observatory could look like this:-

Source	Amount	Best case	Amount	Worst case
HIE Shetland	£500,000	13%	£592,500	15%
SIC/SDT/SICT	£1,000,000	26%		
ERDF	£500,000	13%	£592,500	15%
Lottery	£900,000	22%		
FIBOT funds	£1,000,000	26%	£2,765,000	70%
TOTAL	£3,950,000	100%	£3,950,000	100%

It should be stressed that all these figures are illustrative of relative proportions and no formal approach has been made to any of these bodies. It should also be noted that the energy related, interpretive, financing, promotion and marketing costs have not been included in these figures at this stage.

In addition there are issues concerning **state aids** that need to be addressed because some of the funders believe state aid limits could apply to the project despite the fact that FIBOT is a charitable trust and is not a private commercial company. The reason this has been suggested is because of the provision of tourist accommodation which could be seen to be a distortion of competition with other private providers of tourist accommodation.

If state aid limits were to apply it could put a ceiling on the amount of public funds that could be applied to the project of 25% to 30%. This would not be so difficult if Lottery funds were considered 'private', which they have been until recently, but the Scottish Executive has just issued revised guidance which indicates that Lottery funds should now be considered as public money. A double whammy!

However there are precedents where a high % or 100% of public funds have gone into 'heritage' projects e.g. Belmont Trust for renovating Belmont House to provide self catering accommodation at commercial rates in competition with private providers, also the Shetland Amenity Trust to renovate old buildings and lighthouses to provide tourist accommodation. Sandwick Economic and Social Development Company have also received public funds to refurbish Hoswick Visitor centre and cafe. These need to be examined along with other cases to support the argument for higher levels of public funds for FIBOT Observatory/visitor centre/international scientific research centre/interpretive and education centre/community facility/and so on. In other words it may be necessary to stress different aspects in order to lever more funds.

It could be argued also that the visitor accommodation part of the building is actually less than 20% of the floor space (bedrooms, shop, and visitor laundry), and therefore it is ancillary to the overall purpose of the Observatory.

Fair Isle Bird Observatory Indicative Funding Package

Thus at least the remaining 80% of the building and costs could remain eligible for public funds without any state aid limits.

Fair Isle Bird Observatory

Socio Economic Impact Assessment



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1. Introduction

1.1 Fair Isle is an island with around 70 inhabitants that lies mid-way between Shetland and Orkney. It is an internationally renowned site for the observation of migratory birds, as well as being home to an important population of seabirds. Over 250,000 seabirds of 18 different species nest on the island, with 10 species in nationally or internationally important numbers.

1.2 There has been a Bird Observatory on the island since 1948. The original building was constructed by the then owner of Fair Isle, George Walterson, with the present building overlooking North Haven being constructed in 1968. Some upgrading of the building was undertaken in the 1980s but since then there has only been routine maintenance. As a result the building has reached the stage where major refurbishment or new buildings are required if the Observatory is going to be able to continue meeting the needs and expectations of visitors and scientists alike.

Currently the building has 2 star guest house status and offers full board in 6 single, 5 twin, and 3 family rooms/dormitories. Most single and all twin rooms have washbasins with bathroom and shower rooms nearby. The Observatory caters for ornithologists and undertakes daily research on migrants and sea bird colonies, and for an increasing number of 'island' tourists from April through to October.

1.3 This document seeks to examine the economic issues relating to the construction of a new Bird Observatory. In particular, it seeks to demonstrate the contribution that the Observatory makes to the economy of Fair Isle and the wider contribution the Observatory makes to the Shetland economy. The paper will also look at the impact that would result if the Observatory was unable to stay open and of the impact of the proposed new Observatory.

2. Local Policy Context

The policies of several local bodies suggest there would be support for the FIBOT project in Fair Isle:

2.1 In the **Shetland Structure Plan 2001-2016** the Council expressed support for high quality tourism development proposals, particularly those which: ...

- are based on a local environmental or heritage feature, or rural activity.
- do not have adverse effect on the landscape, the best and most versatile agricultural land, nature conservation, the historic environment or the amenity of the area.”

2.2 The **National Trust for Scotland**, the owner of Fair Isle, have produced a **Management Plan** for the island. “The future of the island as a specialist tourist destination should be examined, in co-operation with FIBOT, with a view to enhancing its potential to attract visitors while minimising the potentially negative impacts associated with increasing visitor numbers.”

2.3 In the 2002 **Shetland Local Economic Forum** Development Plan Key Action Points were identified for developing remote areas in Shetland:

- Poor viability in tourism related businesses.
- Support commercial value added activities in remote locations.
- Support community economic development projects that strengthen or regenerate remote communities.

2.4 HIE Shetland Business Plan 2005 – 2008

HIE Shetland produce a Business Plan to guide their actions in the Shetland community. In its latest plan under the heading of ‘growing business’ it detailed the following:

“The performance of the tourism industry is a concern and it is important to raise quality within the industry in terms of accommodation and tourism product, and in particular service levels.”

One of HIE Shetland Strategic Priorities is to “improve the quality and breadth of the tourism product, including the development of niche market tourism.”

2.5 Shetland Islands Council Corporate Plan 2008-2011

The Council has just approved its new Corporate Plan for 2008-2011. Some of the policies included that are relevant to the FIBOT project include those on tourism (p6), the continuation and development of a research base in Fair Isle, and supporting projects that retain people in rural areas (p4&p10)

2.6 Community Planning Board Together Shetland/ Sustaining Shetland

The CPB’s agreed Policy Framework for Shetland contains a number of policies that the FIBOT project would help to achieve, especially CP5 – developing the economy of rural areas, CP12 on the natural environment and biodiversity.

3. Current Socio-economic Position

3.1 Population

At the time of the 2001 census the total population in Fair Isle was 69, this continued the trend of stable population levels on the island since the 1961 census.

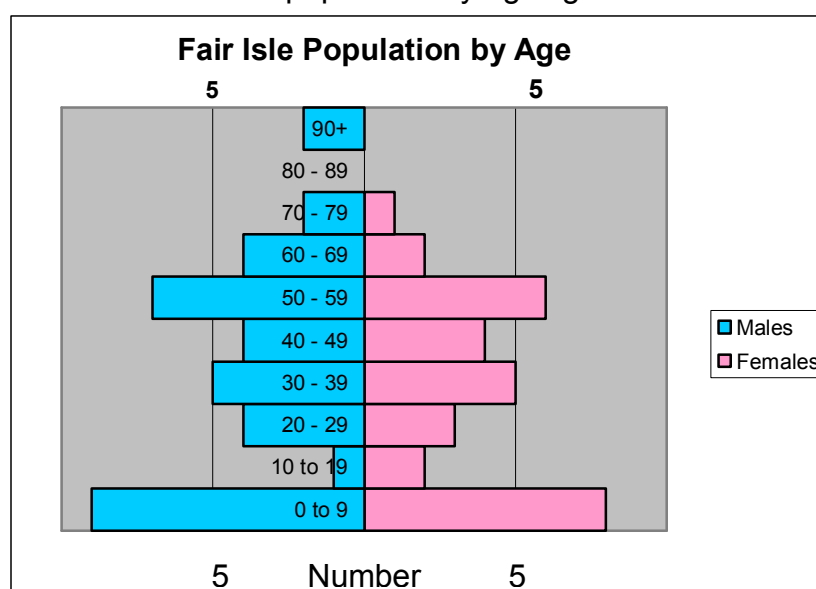
Population by decade:

	1961	1971	1981	1991	2001	2007
Population	64	65	69	67	69	70*

Source: Shetland in Statistics * estimate

3.1.1 Population Breakdown

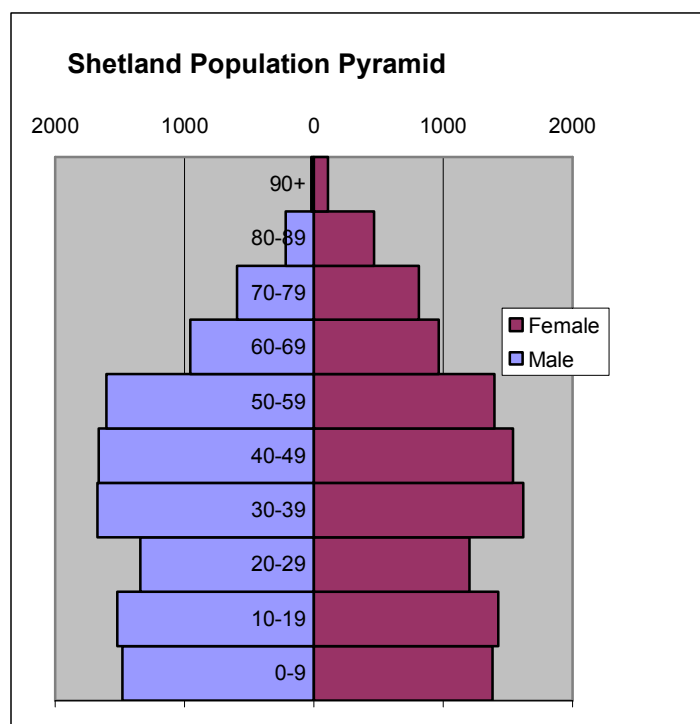
Breakdown of 2001 population by age figure



Source: 2001 census

The peak age group was 0-9, with a total of 17, made up of 9 males and 8 females. Overall, again there were slightly more males than females, with 38 compared to 31, giving an overall population for the island of 69. Looking at the population pyramid above we can see that it is very healthy compared to other remote communities with a high proportion of young people living on the island.

The primary school roll is currently 6, with 9 secondary age pupils travelling to the High School in Lerwick at the start of the new term. There are also currently 3 pre-school children on the island. A total of 18 children therefore live on the island, although 9 of these are predominantly based in Lerwick during the school term. That is 26% of the total population on the island and is a much higher percentage than in Shetland as a whole. Based on current estimates 16% of the population in Fair Isle are retired.



Source: 2001 Census

Looking at the Shetland Population Pyramid, it is clear that the make-up of the Fair Isle population is similar to that of Shetland as a whole though there are proportionately more in Fair Isle in the 0-9 and 50-59 age ranges.

3.1.2 Projected Population

The population levels in Fair Isle have been steady over the past decades and it is unlikely that based on current activity a decline in population could occur over the foreseeable future. There is one empty National Trust for Scotland property, while another two are to be vacated very soon. During the last recruitment campaign there was no shortage of people wanting to live on Fair Isle therefore the most likely scenario is a continuation of population levels around the same level.

3.2 Employment Details

Official employment data is not available at the level of Fair Isle due to confidentiality issues. However data has been collected using local knowledge and the following table gives an indication of the level of employment on the island and points to a relatively high level of adult economic activity in the island.

Sector	Employer	Description	People Employed	FTE* ¹	Total
Primary	Crofters	Agriculture	16 Part Time	4.0	
Primary	Blue Osprey (LK3423)	Fishing	2 Part Time	0.8	4.8

Fair Isle Bird Observatory Economic Impact Assessment

Manufacturing	Island Publishing	Publisher	2 Full Time	2.0	
Manufacturing	Fair Isle Crafts	Craft Manufacturer	8 Part Time	2.0	
Manufacturing	Stewart Thomson	Craft Manufacturer	1 Part Time	0.5	
Manufacturing	Ian Best	Craft Manufacturer	1 Part Time	0.5	
Manufacturing	Clare Scott	Craft Manufacturer	1 Part Time	0.5	5.5
Construction	Brian Wilson	Construction	1 Part Time	0.5	
Construction	John Best	Construction	1 Part Time	0.5	1.0
Services	FIBOT	Accommodation	2 FT + 8 seasonal	6.0	
Services	SIC Ferries	Transport	4 Full Time + 2 PT	5.0	
Services	Fair Isle Primary School	Education	2 FT + 3 PT	3.5	
Services	Airstrip Staff	Transport	7 Part Time	3.5	
Services	Fair Isle Shop and PO	Shop	1 FT + 1 PT	1.5	
Services	D and JM Wheeler	Weather Station	2 Part Time	1.0	
Services	District Nurse	Health	1 Full Time	1.0	
Services	Riddifords	Consultants	2 Part Time	1.0	
Services	Electricity Scheme	Heat and Energy	2 Part Time	1.0	
Services	Sheltered Housing	Warden and Care Assistant	2 Part Time	1.0	
Services	Road Maintenance Staff	Public Administration	4 Part Time	1.0	
Services	Upper Leogh	Accommodation	2 Part Time	0.8	
Services	Coastguard		6 Part Time	0.6	
Services	Frideray	Musical Band	5 Part Time	0.5	
Services	Lise Sinclair	Poet, Musician, Song Writer	1 Part Time	0.5	
Services	Puffin Hostel	Accommodation	1 Part Time	0.5	
Services	Water Board	Maintenance Staff	2 Part Time	0.5	

Services	Royal Mail	Postman	1 Time	Part	0.5	
Services	Koolin Self Catering	Accommodation	1 Time	Part	0.3	
Services	Refuse Collector	Public Administration	1 Time	Part	0.3	
Services	BT	Maintenance Staff	1 Time	Part	0.25	
Services	Lighthouse Board	Maintenance Role	1 Time	Part	0.25	
Services	Registrar	Public Administration	1 Time	Part	0.1	
Services	Public Hall	Cleaner	1 Time	Part	0.1	30.7
	TOTAL JOBS	Full Time Roles	12 roles		42.0	
		Part Time Roles	88 roles			

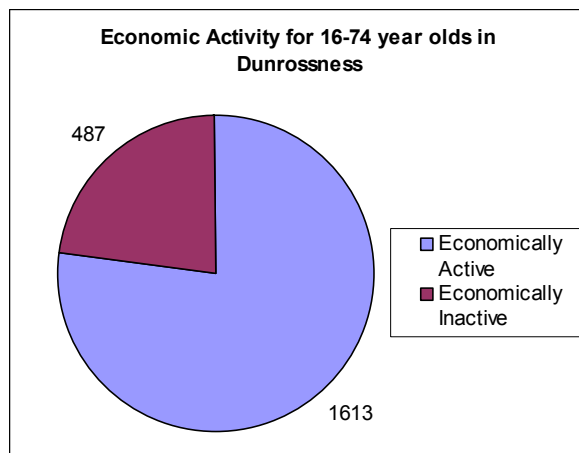
*1 FTE – Full Time Equivalents – the total time worked divided by the average annual time worked in full-time jobs within the economic territory.

The Observatory accounts for 14% of total FTE employment.

3.2.1 Economic Activity Rate

This table gives a total employment level of 42 Full Time Equivalents. When you consider that there are 18 children on the island this shows a very high economic activity rate. The 42 FTE roles are undertaken by the 52 adults on the island with at least 10 of these adults being of retirement age. This represents an activity rate of 81% as compared with 87% for Shetland (2004 figure) and 79% for Scotland (2006 figure). With 100 jobs on the island (the majority of which are very part time), and 42 adults in working age groups, it is clear that individuals on Fair Isle have more than one job, and on average over two.

Economic activity levels for the Dunrossness area, under which Fair Isle falls for Over 16 is detailed in the following chart:



Source: 2001 Census

Economic Activity in Dunrossness, 2001

Economically Active		Economically Inactive	
Employee Full-time	985	Retired	219
Employee Part-time	324	Student	46
Self-employed with employees - PT	13	Looking after home/	93
Self-employed with employees - FT	71	Perm. sick/disabled	82
Self-employed without employees - PT	34	Other	47
Self-employed without employees - FT	100		
Unemployed	49		
Full-time students	37		
Total	1613		487

This gives an economic activity rate for the Dunrossness area in 2001 of 77%. Significantly lower than that of Fair Isle.

3.2.2 Unemployment

Unemployment data is not available on an island level for Fair Isle. However, the unemployment level for Shetland as a whole was 0.8% in September 2007.

4. Economic Activity

The island of Fair Isle has traditionally been a crofting community. There are eighteen crofts on the island ranging in size from 3 to 20 hectares. There are also a number of craftspeople on the island with varied produce – knitwear, paintings, and musical instruments to name a few. Other major employment includes six people involved in the crewing of the inter-island ferry, teaching and auxiliary staff at the local school, which at present has a roll of 9. The Bird Observatory also employs 10 people in their open season and 2 of those are kept on all year round. There is also a shop and post office on the island. As was shown in the previous section there is a high economic activity rate on the island, and it is common for adults to have more than one job, with some actually combining more than two roles.

Data on turnover and output is not readily available however some very rough estimates have been made using some actual figures on employment as a basis in conjunction with employment/turnover ratios based on Shetland Input/Output data from the 2004/5 Study. This has been supplemented by additional data gathering to produce the following estimated value of economic activity in Fair Isle.

The sale of lambs from Fair Isle totalled £15,506.50 in 2005 for the 737 lambs sold. However there is additional income for the crofters in the form of grants. The average single payment farm subsidy of a farm in the North and Northern Isles of Scotland is £6,806 (source: farmsubsidy.org). However due to the small croft sizes on Fair Isle it is not envisaged that all sixteen part time crofters will receive as much as this each. It is estimated that the total subsidy that comes into the island is in the order of £54,448.

Again based on the industry average turnover of £75,000 for Shetland-based shellfish vessels (source Shetland Seafood Industry Review) it is estimated that the turnover of the one fishing vessel registered in the island is £25,000.

Using output-to-worker ratios obtained from the Shetland Input/Output Study the turnover in Fair Isle is estimated to be £1,320,838 based on the number of FTEs in the various service sectors. However, due to the small economy in Fair Isle it is felt that this is an unrealistic figure for the turnover in Fair Isle. Based on discussions with various individuals it is more realistic to assume that the turnover of the Services sector in Fair Isle is more in the region of £325,000 to give a total turnover in the region of £600,000.

	Employment	Output/Worker	Total Turnover
Primary	4.8 FTE		£94,954
Manufacturing	5.5 FTE	£24,390/FTE for crafts £18,181/FTE for other manufacturing	£121,729
Construction	1.0 FTE	£66,667/FTE	£66,667
Services	30.7 FTE		£325,000
Total	42.0 FTE		£608,350

5. Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis and key issues

Summary of key issues in the area

The economy of Fair Isle is small which relates directly to the low population number (0.3% of the Shetland total). The key issue for the community is to sustain the visitor numbers, employment and population levels on the island. Consultation with the Fair Isle community has highlighted the very important role that the Observatory plays in the social and economic health of Fair Isle.

At present the Bird Observatory has come to a stage where major refurbishment or new buildings are required to meet the needs of all visitors to the island.

Fair Isle – A SWOT Analysis

<u>Strengths</u> <ul style="list-style-type: none">• Unique, protected, natural environment• Attractive destination due to status and isolated location• Internationally renowned knitwear• Electricity scheme	<u>Weaknesses</u> <ul style="list-style-type: none">• Reliance on fragile transport links• Reliance on Bird Observatory to bring in and host visitors• Limited transport capacity
<u>Opportunities</u> <ul style="list-style-type: none">• Improved accommodation facilities on Fair Isle will provide a better visitor experience• Population retention and growth of the community and economy	<u>Threats</u> <ul style="list-style-type: none">• Declining standard of accommodation in comparison to visitor expectations.• Changes to air service• Lack of protection for marine environment

6. Impact of the Existing Observatory

6.1 Direct Impact of the Observatory on Fair Isle Economy

Income in Fair Isle is heavily dependent on the operation of the Bird Observatory and Guesthouse. During the six months in which it is open the influx of visitors contribute significantly to the economy in terms of direct income to the Observatory and also increased demand for transport to and from the island. Art and craft sales also benefit.

The following calculations are based on 2005/6 audited figures as 2006/7 audited figures were not available at the time of this report; however indications suggest that 2007 turnover will be in excess of the figures stated below. Visitor numbers are known to be up by 15% to 630 for 2007 hence the figures below are conservative estimates of the current impact of the Observatory. The figure used for visitor numbers in the following calculations is the 2006 figure of 550, which is lower than the average of the past three years (573). Therefore the calculated actual gross impact of the Observatory is on the conservative side.

In overall terms the turnover of the Observatory (around £130,000) represents 21% of the total output of the Fair Isle economy, based on our calculations in Section 4. The significance of this is reinforced by the fact that Observatory income is virtually all from outside the island, therefore bringing new money into the island. However not all of this directly impacts on other activities on the island as some of the expenditure is made outside the island. The local expenditure component has been identified below:

Wages and Salaries

During the months in which the Observatory is open, a total of 10 people are employed.

In terms of wages and salaries expenditure this amounts to:

Full Time Employees and seasonal staff	£31,307
--	---------

It is estimated that 40% of this wages expenditure is paid to people in Fair Isle, while the remaining 60% is to people who come to work at the Observatory from outwith Shetland and who do not spend much on the island.

Purchase of Goods

All the Bar Purchases made by the Observatory are from the local shop, while almost all (98%) of hostel purchases are also made in Fair Isle, and 10% of the Observatory shop purchases are made in Fair Isle. One fifth of freight expenditure and 10% of Post and Phone costs are also made within Fair Isle.

Based on the 2005/2006 financial year, the direct expenditure of the Observatory in the Fair Isle Economy was as follows:

Bar Purchases (100%)	£9,559
Hostel Purchases (98% of £25,396)	£24,888
Shop Purchases (10% of £5,130)	£513

Freight (20% of £780)	£156
Phone and Post (10% of £3,680)	<u>£368</u>
	£35,484

Therefore the direct operations of the Observatory are worth at least £48,007 to the Fair Isle economy. However given that 73% of this expenditure is through the shop then the value added will be the retail margin. Nonetheless this is still significant to the survival of that business.

6.2 Importance of the Observatory to the local craftspeople

When staying at the Observatory, the visitors spend money in the Observatory shop and on the produce of the local craftspeople. Based on data from the 2006 Shetland Visitor Study, it is estimated that a holidaymaker to Shetland spends on average £28.70 per head on local crafts. Data from the same survey indicates that holidaymakers who stay solely in Fair Isle spend on average £18.33 on crafts, gifts and souvenirs. Therefore over the season Observatory visitors (there were 550 in 2006) could spend around £15,785 in Shetland on gifts and crafts, with an estimated £10,082 of this being spent in Fair Isle.

6.3 Direct Impact of the Observatory on the Shetland Economy

The operations of the Bird Observatory also directly impact on the Shetland Economy. Of the Observatory's expenditure on travel half of it goes to providers in Shetland. 80% of Freight costs are to Shetland organisations. 50% of the cost of repairs and renewals are to Shetland businesses. A fifth of sales and marketing spend is made to Shetland businesses, and one third of other operational costs.

Based on the 2005/2006 financial year, the direct expenditure of the Observatory in the Shetland Economy was as follows:

Fuel, diesel and gas (100%)	£8,938
Travel (50%)	£1,101
Freight (80%)	£624
Repairs and Renewals (50%)	£2,482
Sales and Marketing (20%)	£1,478
Operational Costs (33%)	<u>£3,900</u>
	£18,523

The Observatory on Fair Isle is a key strategic tourism product that draws people to Shetland. It can be the primary reason for coming to Shetland for most of the people who stay there. Without it they may not have come at all to Shetland therefore the expenditure outside Fair Isle can be attributed to the Observatory impact i.e. on the rest of Shetland.

The additional expenditure by visitors on the Shetland mainland on their trip to and from Fair Isle, includes accommodation, travel costs and other expenditure. Data from a 2005/2006 visitor survey suggests that 70% of visitors to Fair Isle also spend at least one night in another area of Shetland.

The average expenditure (excluding the cost of travel to Shetland and craft spend) in Shetland by those visitors who stated the reason for coming to Shetland was the birds and/or the Fair Isle Bird Observatory is £54 per person per day. Based on 2006 Bird Observatory visitor numbers (550) this suggests that even if the visitors are spending just the one night in another area of Shetland this will be worth an additional £20,790 to the Shetland economy. In consultation with the Sumburgh Hotel which is within close proximity to the airport they have estimated that around 60 visitors spend one night at their premises either prior to their visit into Fair Isle or afterwards. This equates to around £5,000 in turnover from these Fair Isle visitors.

Also Shetland Wildlife run two trips to Fair Isle during the bird season. At a cost of £595 per person per trip this equates to a £11,900 in turnover for the company, based on 10 people per trip (the maximum is 12), as without the Bird Observatory the company would not be able to offer the trips due to lack of other accommodation facilities.

6.4 Importance of the Observatory to the local shop

From interviews with the local shopkeeper and post-mistress it is estimated that the Observatory accounts for at least 35-40% of the shop business over the whole year. The income during the open season of the Observatory allows the shop to weather the quieter winter months. It is also estimated that about 90% of Observatory visitors come into the shop, with the majority spending something, even if it is only stamps for postcards. The distribution of the Observatory's newsletters and reports also help to contribute to the level of activity at the Post Office.

6.5 Importance of the Observatory to the transport operators

Using passenger numbers and visitor numbers obtained from the Bird Observatory, it is possible to identify how many of the annual passenger numbers are travelling to stay at the Observatory.

	Total Air Trips Made	Total Ferry Trips Made	Total Trips	FIBO Visitors	Total Trips by FIBO Visitors	% of total travellers who stay at FIBO
2003	2340	746	3086	458*	916	30%
2004	2299	799	3098	478*	956	31%

* These visitor number figures are doubled to get the total trips made by the visitors.

Based on the current fare levels of £31 single for a flight to Fair Isle, and £2.80 for a single ferry journey to Fair Isle we can calculate the value to the transport operators of the trips Observatory visitors make to Fair Isle. Over the last few years, 75% of trips into Fair Isle have been by air and it has been assumed that 75% of Observatory visitors use the air service.

Based on the full fare (the vast majority of Observatory visitors are adults) the 550 visitors in 2006 contributed £25,575 to Direct Flight, and £770 to the SIC

Ferries. This is likely to represent much more than 30% of total income on this route on the assumption that there will be Fair Isle children travelling regularly on the routes.

6.6 Multiplier Effects

The direct impact of the Observatory turnover and the fact that people are attracted to visit Shetland because of the Observatory means that there are further impacts called indirect and induced impacts. These take account of the fact that there are the first round (indirect) effects on other businesses through increased turnover and employment, and that taken together with the direct turnover and employment the observatory creates further expenditure in the economy and benefits other businesses (induced effects).

Using accommodation multipliers from the 2005 Shetland Input/Output study we can calculate the gross effect of the Bird Observatory's operations:

The SAM output multiplier for Accommodation is 1.808. This means that for every £1000 increase/decrease in demand for accommodation another £808 is estimated to be generated/lost in all sectors of the economy. Using the SAM model means that both indirect and induced impacts are accounted for.

Similarly, the employment multiplier for accommodation is 1.303; this translates to 0.3FTE being created/lost for every unit increase/decrease in FTE in the Accommodation sector.

Based on these multipliers we can estimate that based on the 2005/6 £130,360 turnover the Observatory operations generate an additional £105,331 of indirect and induced impacts on the Shetland economy. While the 6 FTEs the Observatory employs results in nearly 2.0 FTEs in the economy. The table below shows that there would be a gross loss of close to £350,000 in the Shetland economy if the Observatory were to close its operations in Fair Isle.

Gross Impact of the Observatory

	TOTAL				Indirect	Induced	Combined	Gross
<u>Expenditure</u>		In Fair Isle	In other areas of Shetland	Outside Shetland				
Wages	31,307	12,523		19,377				
Purchases	40,085	35,484						
Other expenses	59,462		18,523					
Total	130,854							
<u>Income</u>								
Hostel Accommodation and meals	75,957							
Shop Sales	8,332							
Bar Sales	15,039							
Grants/Donations	31,032							
Total	130,360				62,558	42,772	105,330	235,690
Profit/(Deficit)	(494)							
Craft Purchases	15,785	10,082	5,703				9,092	24,877
Spend by FIBO Guests in other areas of Shetland (exc spend on travel, tours and crafts)*	15,345		15,345				12,399	27,744
Tours	11,900		11,900				9,015	21,515
Air Travel	25,575		25,575				8,747	34,322
	198,965							344,148
Employment	6 FTEs						2 FTEs	8 FTEs

* this assumes one night stay only on Shetland mainland and excludes spend on travel in Shetland, tours and craft spend

7. Social Impact

Much of the current feasibility study into the New Bird Observatory Project has focused on economic and environmental impacts, funding, practicalities and functional needs of a new building. It is also felt by the island community that the study needs to consider the social impact that the Bird Observatory has on the Fair Isle community, as expressed below.

From the early years of George Waterston and Ian Pitman there was always more to the cause than just establishing a bird observatory. For George his efforts were as much about the future of the isle as it was for the research need and the prospect of visiting birders. With that outlook there was an automatic social involvement with the isle that continues to this day.

Limited population on Fair Isle has always meant that any addition to numbers has allowed a greater social circle and experience valued by all age groups. Seasonal staff and visitors, who have always had an invitation to participate, enhance any dance, party or social event. This is reciprocated as islanders can enjoy another venue. The Observatory offers a conference facility to groups, organisations, visiting VIP's and a very hospitable venue for visiting artists and poets. These events are usually followed by an informal and pleasant evening. Sunday lunch, and other meals, booked at the Observatory are always a welcome change and another opportunity to socialise.

Community activities reliant on numbers are frequently aided by the input of Bird Observatory staff, and seen as vital to the overall function and prosperity of the isle. Shared work frequently provides the occasion to broaden social experience and enjoyment. Many friendships are forged as sheep are gathered and clipped. Islanders in turn can offer an insight into island life made easier by the input and enthusiasm of others. The Bird Observatory and the isle complement each other through many work related activities that simultaneously offer a social opportunity to all involved.

From island dances to the Observatory's "Fair Isle Thursdays", islanders can engage with a wider group of people from all over the world. Fair Isle Thursdays are held fortnightly during the season. The format of a slide show or presentation followed by music is very successful. The evening is open to all. With no pub, restaurant, club or other mainland attraction, the need to maximise such social occasions is essential and maintains a very long-standing relationship. Island resident staff, Fair Isle Bird Observatory Trust Directors and islanders have always recognised this relationship as having a significant impact on the social life and well being of the isle.

For six months of the year Fair Isle has a limited numbers of visitors. At the end of April the Bird Observatory opens for the season and the Fair Isle community can look forward to a host of new faces and the social possibilities of increased numbers on the isle. The social impact cannot be measured in the same way as economic impact but it is an invaluable asset to the Fair Isle community and one that the island hopes to enjoy in the future.

As suggested above it can be more difficult to show a direct cause and effect in relation to social impact due to the more complex interrelationships between the different factors. Nonetheless it is likely that the FIBOT presence on the island, along with other factors such as the National Trust role, has played a major role in maintaining a healthy and stable population structure, unlike most other remote communities in Shetland.

It should be clear also from the description above that FIBOT is fully integrated into the Fair Isle community and is an integral part of its survival and health. There is also close communication and working between the local community organisations and FIBOT, and the local community is represented on the Trust to ensure there is full consultation and involvement of the local community. Thus the FIBOT project is as much a community project helping to sustain an isolated island community, as it is an economic and environmental one. This illustrates very well the benefits of an integrated approach involving all elements – community, economic, and environmental – to achieve a sustainable future for the island.

The community have expressed their full support for the project and are working with the Trust to smooth the transition from the old facility to the new one and to help with the project where possible.

Impact of Closure on Fair Isle: If the Observatory were to close it would cause significant dislocation to the island and threaten its survival. There could be a fall in the population and especially the school roll, there could be much reduced transport service especially air (more like the Foula service), much poorer shop service and possible closure, loss of craft sales and income, and greater social isolation.

8 Impact of New Observatory

It is proposed to build a new Observatory in a way that enhances as well as replaces the existing building. The Observatory at the moment is quite old and is not up to the standard of accommodation now required by many visitors, in terms of en-suite and other facilities. It is proposed that the new Observatory will not only enhance the visitors' stay but also be much more energy efficient and therefore strengthen its viability in an island where it is very expensive to import energy. It is proposed to have slightly more bed spaces in the new Observatory. It is also proposed to extend the season and attract more visitors earlier in the year.

During the construction phase of the project the existing tourist operation will have to close for a season as the new building is being constructed on the existing site with the existing observatory knocked down; this will have a significant negative impact to Fair Isle during this period, with a knock on effect for the travel operators and the local shop. However this can be at least partly offset by the greater demand for food and transport from those workers directly involved in the construction phase and through providing some sub contract work to local residents.

8.1 Projections of New Operation

On the basis of the business plan projections for the most likely scenario the impact of an enhanced facility is likely to be around £215,000 p/a in direct terms and £370,000 p/a in gross terms for the Shetland economy as a whole. This means a net additional direct benefit of at least £16,000 and overall £26,000 p/a that cumulatively could come to directly £54,000 and grossly £97,000 over the first 3 years of operation.

	Realistic Scenario	Type 2 combined multiplier	Gross Impact
Turnover			
Year 1	146,633	118,479	265,112
Year 2	149,821	121,055	270,876
Year 3	150,101	121,282	271,383
Craft purchases on Shetland			
Year 1	15,785	9,092	24,877
Year 2	15,785	9,092	24,877
Year 3	15,785	9,092	24,877
Spend by FIBO guests in Shetland			
Year 1	52,820	30,161	82,981
Year 2	52,820	30,161	82,981
Year 3	52,820	30,161	82,981
Total			
Year 1	215,238	157,732	372,970
Year 2	218,426	160,308	378,734
Year 3	218,706	160,535	379,241
Total	652,370	478,575	1,130,945

This assumes that spend on crafts and in other areas of Shetland remains at the same level.

9. Conclusions

This report has attempted to provide an overview of the economic activity in Fair Isle and how reliant it is on the successful operation of the Fair Isle Bird Observatory. It shows clearly that the economy of the island is heavily dependent on the continuing operation of the Observatory.

The report has shown the direct impact that the Observatory has in terms of employment and expenditure in the Fair Isle, and the wider Shetland economy. Multipliers have been used to calculate indirect and induced impacts, and data has been used from a visitor study to show the average spend of visitors in Shetland. The report therefore shows the level of income in Fair Isle, and Shetland as a whole, that could be lost if the Observatory was unable to continue operating.



REPORT

To: Development Committee

05 June 2008

From: Agricultural Development Officer

DV026-F

Options for the Development of Abattoir Facilities in Shetland

1.0 Introduction

- 1.1 This report appraises current abattoir provision in Shetland, and the options available for the development of this service for the benefit of the local agricultural and food industries.
- 1.2 The following options for future slaughter provision in Shetland and their respective implications are explored in detail in the report:
 - Option A - Provide no further investment in facilities at this time;
 - Option B - Upgrade existing facilities;
 - Option C - Build a new abattoir facility.
- 1.3 The report includes estimates for the capital investment required for each option, the funding packages available to enact each option, and indicative operational models for each option.
- 1.4 The Development Committee is asked to consider the options available and make a decision regarding:
 - how the Council should engage with assisting the development of abattoir provision in Shetland, and;
 - the funding mechanism by which the Council can assist the development of abattoir provision in Shetland.

2.0 Links to the Corporate Plan

- 2.1 The Corporate Plan contains policies to encourage sustainable development. Specifically, the policy to “Ensure all assistance schemes help towards funding market-led solutions” relates closely to the agricultural subject of this report.

3.0 Background

- 3.1 On 7 December 2006, Shetland Development Trust (SDT) considered a report on the very same issues the Development Committee are currently asked to consider – “Options for the Development of Abattoir Facilities in Shetland” (see Appendix 1 <http://www.sic.gov.uk/services/edu/default.asp>).
- 3.2 Taking into account background studies performed to date at the time (being the “Study into the Future for Livestock Production in Shetland” and the “Shetland Abattoir Feasibility Study”, (July 2005 & November 2006 respectively), both prepared by Peter Cook & Partners), the SDT report made the following recommendations:
- “10.1 It is recommended that Trustees agree in principal to investing resources in developing Shetland’s slaughtering provision.
- “10.2 It is further recommended that Trustees defer making a decision on the development options until a full appraisal can be made on upgrading existing facilities.
- “10.3 If the Trustees wish to select Option C [note – this option was “Build a New Abattoir Facility”] it is recommended that operators are sought who can demonstrate viable use of the new abattoir prior to any capital investment being made and that the full report be presented for consideration and decision by the full Council.”
- 3.3 Some trustees did not agree with some of the appraisals contained in the report, particularly regarding the constraints on public funding imposed by State aid legislation. Accordingly, an alternative motion was tabled to propose the following:
- “The Shetland Development Trust believes that there is an urgent need for a meat processing and abattoir facility to be provided as an essential piece of infrastructure in Shetland, which is available on equal terms to all users. The Shetland Development Trust proposes to set aside up to £3 million for the purpose of providing it.
- “The Shetland Development Trust recommends to Shetland Islands Council that this project be taken forward, and that a team be set up to bring it to completion.”
- 3.4 This motion was approved by the Trust and a figure of £2.4m was agreed as a budget, based on the indicative costs identified in the “Shetland Abattoir Feasibility Study”.
- 3.5 This decision was ratified by Shetland Islands Council on 8th February 2007, and the Council’s Economic Development Unit staff, working alongside SDT staff, subsequently attempted to realise the terms of the decision.
- 3.6 Progress was made identifying a site at Staneyhill, adjacent to the existing Marts buildings. An initial design was put out to public consultation in March 2007, and some amendments to the design

were taken into consideration, i.e. regarding chill capacity. The Council's Capital Programme Service undertook to oversee the design of the facility, and in the course of revising the design and providing sufficiently detailed plans, it became apparent that the £2.4m budget was speculative and likely to fall short of the final project cost.

- 3.7 The Industry Consulting arm of the Meat & Livestock Commission (MLC) was engaged to provide a design and indicative cost for a facility suitable for Shetland's needs – not a “gold-plated” design. Their “very budget costings” (see Appendix 2) provided a total cost of £3.1m, provided with the following caveat, “I would not be surprised if the cost rose to between £3.5m - £4.0m”.
- 3.8 Meanwhile, development staff sought clarification from the Scottish Government State Aid Unit regarding funding packages by which a new abattoir could be legally built using public funds. A portfolio of five possible funding packages was constructed, all built around the guiding principle that such an abattoir would be a piece of public infrastructure, access to which would be available to all on equal terms. Initial feedback from the State Aid Unit was not encouraging – the assumption that an abattoir was a piece of essential public infrastructure and thereby exempt from State aid legislative requirements was held to be incorrect and misplaced.
- 3.9 In the light of this development, on 23 January 2008 the Council's Agricultural Development Officer and the Chairman of the Council's Agricultural Panel met with Scottish Government and DEFRA officials to clarify the circumstances under which a new slaughterhouse *could* be built in Shetland. The guidance received was explicit and unequivocal, as follows; the only way the Council could legally invest in the building of a new slaughterhouse was as the provider of 50% of the cost of the project. The remaining 50% would have to come from a private source.
- 3.10 The only potential situation under which this could be varied would be under circumstances of actual or imminent market failure, whereby both operators of the existing facilities have either ceased operation or can demonstrate that their demise is imminent. In these circumstances the Council could prepare a case to be submitted to the EC as a non-paper outlining the positive socioeconomic / welfare / environmental impact a functioning slaughterhouse would provide for Shetland. Furthermore, this non-paper would need to determine the need for the Council to build and/or operate the facilities in the absence of anyone else from the private sector to fulfil this role. Finally, the non-paper would need to demonstrate that the agricultural industry would build their markets in the meantime to a point at which the Council could sell the facilities back to a private operator at a commercial price within a reasonable timescale, i.e. 5-10 years. **There is no guarantee that Shetland could construct such a compelling case, nor that the EC would look favourably upon such a request.**
- 3.11 These two scenarios were explained to the Agricultural Panel on 25 January 2008. In the ensuing discussions, it was noted that there

were no accurate and contemporary figures for the cost of the alternative option, that of upgrading the two existing facilities at Boddam and Laxfirth. It was therefore agreed that the Council should commission John Goodman of MLC to evaluate the condition of the existing facilities.

3.12 MLC Industry Consulting were commissioned, with the cooperation of the respective slaughterhouse operators, to undertake an inspection and evaluation of those facilities and determine the following:

- The minimum work required and indicative costs to enable each plant to meet the current and future legislation (all premises involved in slaughtering, cutting, processing or retailing meat or meat products are covered by the new EU food hygiene legislation enacted on 1 January 2006);
- Provide details of indicative costs for any improvements thought necessary by the operators to increase throughput and make their respective plants more efficient and profitable.

3.13 John Goodman visited Shetland during 17-19 March 2008, spending a day at each facility. Neither was slaughtering on that day, but he was able to examine the facilities in detail and speak to staff from each facility. NB – by this time MLC Industry Consulting had become AHDBms Consulting. John Goodman's report "Inspection and evaluation of Boddam and Laxfirth slaughterhouses" (see Appendix 3) was distributed to both current operators for feedback, and discussed by the Agricultural Panel on 9 May 2008. (The Agricultural Panel minute is attached as a later item on the agenda).

4.0 Analysis of Service Need

- 4.1 The agricultural industry in Shetland has in recent years placed more emphasis than hitherto on the value of finishing stock in Shetland, either for local consumption or to export under various Shetland-specific brands. Numbers of sheep slaughtered at the two existing operational facilities in Shetland increased by a factor of 325% between 2004 and 2006 (2007 being anomalous following the national Foot & Mouth Disease outbreak), rising to a total of 14,105 sheep and lambs in 2006. The numbers of cattle and pigs slaughtered in Shetland however have declined, by 75% and 77% respectively in the same period. In 2006 103 cattle and 89 pigs were slaughtered in Shetland.
- 4.2 Consumers, particularly in the UK have become more affluent and prepared to pay a premium for high quality red meat with a strong story behind it. This was confirmed by independent market research in the Promar International report "Developing the Opportunity for Shetland in the Premium Meat Market" (Promar 2005).
- 4.3 There exist further opportunities for future growth in the numbers of sheep, cattle and pigs slaughtered in Shetland. The potential market for air-dried mutton (vivda) to export to Faroe and Denmark could lead to a further 6,000 old, cast ewes needing slaughtering annually. The light lamb market in Europe remains largely untapped. Finally, the

domestic Shetland market for beef and pork is clearly under-supplied by locally produced meat at present, and there exists scope to increase the current low numbers.

- 4.4 However, these figures (actual and speculative) need to be set in the context of the larger market for livestock produced in Shetland, namely export as store animals for finishing in the more clement climate and larger units elsewhere in the mainland UK. In 2006 81,409 sheep and 2,158 cattle were exported from Shetland.
- 4.5 Moreover, rising oil prices are dramatically impacting on the viability of agriculture as a whole, and finishing stock in particular. The cost of fuel, fertiliser and feed has risen spectacularly in the past 4 years – fertiliser alone has quadrupled in price. Finishing stock requires over-winter feed, in the form of silage, locally grown fodder crops, or imported feed concentrates. These are all increasingly expensive inputs, particularly in the context of Shetland's remote location and extremely short summer growing season.
- 4.6 Subsidies and grants have over the past 20 years formed an increasingly central part of the Shetland agricultural industry's income. The Scotland Rural Development Plan (SRDP) is the Scottish Government's vehicle to deliver agricultural subsidies in the period 2007-2013 – early indications are the Shetland will see reduced levels of agricultural subsidy in this period.
- 4.7 In 2007/2008 finished sheep-stock has commanded better than average prices, giving some hope to the agricultural industry that these higher production costs will be offset by better returns. This sense of renewed optimism is compounded by the daily reports of a global food shortage, and thereby increased demand for their produce.
- 4.8 This optimism may well be misplaced, as it ignores the factor of price volatility. All the European Commission's market forecasts through to 2014 warn that for the major commodities (with the possible exception of beef) prices will be more volatile than in the past. Higher food prices do not necessarily translate into higher margins for the agricultural industry, as simple supply and demand is coloured by global speculators and volatile currency rates, resulting in wildly swinging commodity prices.
- 4.9 Markets for Shetland sheep meat are as follows:

4.9.1 Domestic (Shetland)

Homekill accounts for an estimated 20,000 sheep per annum. Figures of this unregulated procedure are necessarily imprecise, but approximately 2,000 sheep per annum are killed at Laxfirth as homekill. A growing number of crofters prefer to have their homekill dealt with by professionals in a dedicated slaughter environment, rather than by themselves on their own steadings. This is set to increase as regulations become more stringent and the skills to slaughter at home are less prevalent.

The Council is currently moving towards a position whereby local food procurement assumes the importance it rightly should have. A significant increase in demand for lamb, mutton and beef can be expected if Shetland's publicly run institutions take regular deliveries of locally finished meat as a matter of course. This is part of a national trend towards recognising the importance and nutritional value of fresh local food, and it is reasonable to expect that the NHS will in time change its procurement policy to reflect this also.

4.9.2 National (UK)

Market research undertaken by Promar International in 2005 determined that intense competition by major retailers, particularly in terms of pricing has led to a market in which the future lies in creating niche premium products. Rising levels of disposable income amongst consumers, a growing media-driven interest in food generally, and rising consumer confidence with red meat following the BSE and FMD food scares all point towards a willingness amongst consumers to buy greater quantities of high quality red meat products. Demand is currently highest for beef, followed by lamb in second place.

Currently Shetland lamb is virtually unknown in the UK market, with only a few independent producers selling small quantities of lamb from the Shetland breed (incidentally, in breach of the Protected Designation of Origin awarded to Shetland Lamb) and one Shetland-based producer successfully selling small amounts of lamb and beef via independent retail outlets in Edinburgh and London. However, Promar's research confirmed that the marketplace as a whole showed interest in the relatively unknown premise of Shetland lamb. The 'story' as a whole behind the product was considered to be strong and unique, provided that the product was of consistent quality and taste, and came with unimpeachable traceability.

Potential customers for Shetland lamb (and to a necessarily lesser extent beef) in the UK are multiple retailers; independent retailers; intermediaries (wholesale and catering butchers); chefs; and direct sales to consumers. The Promar market research provided SLMG with contact details of interested parties from across the customer spectrum, from supermarkets, restaurants, wholesale and catering butchers, with the caveat that the volumes required by multiple retailers may represent a more long-term opportunity – Promar considered that for the UK market, "Shetland meat needs to create an element of exclusivity with regard to product, and multiple retail may not be the best route to achieving this".

4.9.3 Scandinavian (currently Faroe & Denmark)

Given Shetland's proximity to Scandinavia and elements of shared culture, Shetland is in a strong position to exploit its proven ability to produce lamb and mutton. Meat consumption as a whole is high in Scandinavia; for example, in Faroe alone an average of 18kg of dried sheep meat is consumed per capita per annum. The population of Faroe and Faroese expatriates in Denmark numbers approximately 63,000 individuals. The implication of this is a total annual market for dried sheep meat alone of 1.1million kg, or 75,600 sheep. Demand outstrips supply, and work undertaken by Aberdeen University has established the means to produce air-dried sheep meat in a manner that will satisfy EU environmental health legislation. Air-dried sheep meat, or vivda as it was formerly known in Shetland commands a premium price amongst the Faroese community.

The Scandinavian market is not confined to Shetland-produced vivda; in 2005 Pure Shetland Lamb Ltd identified in their May 2005 Business Plan the opportunity to export fresh consumer packs, primals and reestit mutton to the Faroese market. Pure Shetland Lamb Ltd anticipated that 30% by volume market share for Shetland sheep meat was attainable in Faroe by the end of the 2005/06 financial year – unfortunately this was not realised, due to a combination of uncertainties over the Smyril link to Faroe, and a lack of slaughter and processing capacity in their current premises. The Faroese market therefore remains a proximate and enticing prospect for Shetland producers, albeit one constrained by transport links.

4.9.4 Southern European

Lamb continues to form a strong market in Southern European countries, notably Portugal, Spain, Italy and Greece. More than anything, Shetland's distance from market has precluded any exploitation of this latent potential, although anecdotal evidence suggests that a number of lambs exported from Shetland as stores end up in mainland Europe. In August 2006, Pure Shetland Lamb Ltd announced a contract to export 20,000 lambs to Italy by December 2006. While this figure was not attained in 2006 (approximately 50% of the target was met), and Foot & Mouth Disease halted all exports in 2007, it is reasonable to expect this market to still exist for 2008 onwards.

4.9.5 Local Beef Market

Beef is a woefully underexploited resource in Shetland. Whilst the generally poor quality of much of the Shetland landmass predicates against significant numbers of beef stock, there is nevertheless a potential market domestically at least for locally reared beef. The "Red Meat Processing & Marketing in the Highlands & Islands" report (2002) identified that beef

consumption in Shetland was at a level equivalent to 1,200 carcasses per annum. It is within Shetland's means to meet a higher proportion of this consumption than is currently attained (see section 4.14).

In 2006, 103 beef cattle were slaughtered in Shetland. SLMG's facility at Laxfirth is unable to slaughter cattle, and a proportion of the agricultural industry appear to find the end-product of the beef slaughter and cutting process at the facility at Boddam does not meet their expectations. It would be pertinent to state that this latter point is certainly attributable to the limitations of the facility itself rather than any failing on the part of the operators.

- 4.10 In 2005, the Council commissioned an independent analysis of future livestock numbers in Shetland, taking into account recent trends, external influencing factors, and likely industry reactions to the aforementioned. The subsequent report provided three possible scenarios for finished livestock numbers in Shetland in 5 and 10 years time. These are summarised in Table 1 below, which shows figures for finished lamb production:

	Scenario 1 Higher numbers	Scenario 2 Recent trends continue	Scenario 3 Lower numbers
Lamb production – 5 years	145,650	145,650	125,500
Lamb production – 10 years	163,150	142,500	104,300
Assumption 1. Finishing subsidy continues.			
Sold finished %			
5 years	10%	15%	20%
10 years	10%	20%	30%
Numbers sold finished			
5 years	14,565	21,848	25,100
10 years	16,315	28,500	31,290
Assumption 2. No finishing subsidy.			
Sold finished %			
5 years	5%	5%	10%
10 years	5%	10%	20%
Numbers sold finished			
5 years	7,282	7,282	12,550
10 years	8,158	14,250	20,860

Table 1 – anticipated numbers of lambs produced and finished in Shetland
Source: Study into the future for livestock production in Shetland, July 2005.

- 4.11 The above suggests, in 10 years time, a minimum future finished lamb total of around 8,000 head per annum and a maximum of approximately 31,000. In 5 years time the above suggests a minimum of 7,000 finished lambs available and a maximum of 25,000.

- 4.12 In the past, the Council offered a grant to address the additional costs incurred by the agricultural industry over their counterparts finishing lamb elsewhere in the UK. This Finished Lamb Scheme was paid on a headage basis; this scheme was stopped when it came to the Council's attention that legislatively it was deemed to breach state aid as a potential distortion of competition. The forecast above predated this development, but took this into account by providing two assumptions.
- 4.13 While it is currently not possible to continue with the Finished Lamb Scheme as it existed previously, it has however been possible to provide assistance under the Shetland Agricultural Business Scheme de minimis provision, in the form of a payment of £350/ha towards crops grown for winter fodder. There has not been much adoption of this measure, either reflecting the fact that the majority of lambs produced are not finished in Shetland, or the relatively low agricultural de minimis ceiling inhibiting which measures producers choose to adopt.
- 4.14 In addition to the need for capacity to slaughter lamb there will be need for the provision to slaughter cattle and homekill sheep. The homekill number is not known and is difficult to derive, as previous numbers are not recorded, (see section 4.9.1). The following table shows the possible scenarios for future cattle slaughter identified in the 2005 livestock numbers study.

	Scenario 1 Strong Store Trade + Env. Support	Scenario 2 Decline in Store Trade + Less Env. Support
Cattle for Slaughter - 5 years	200	200
Cattle for Slaughter - 10 years	200	400

5.0 Existing facilities

- 5.1 There are two operational abattoirs in Shetland:

- Laxfirth – operated by Shetland Livestock Marketing Group (SLMG), subtenants of the Shetland Abattoir Cooperative Ltd, and owned by SLAP;
- Boddam – operated by Pure Shetland Lamb Ltd, and owned by SDT.

Both facilities were evaluated in 2005 by Peter Cook & Partners (see Appendix 1 attachments), and latterly in March 2008 by John Goodman of AHDBms Consulting (formerly MLC Industry Consulting) (see Appendix 3). From 1 January 2006 new EU food hygiene legislation has been applied throughout the EU. All premises slaughtering, cutting, processing or retailing meat and meat products are covered by these regulations. Therefore for the purposes of this report, the AHDBms Consulting report will form the basis of the evaluation of both existing facilities.

5.2 Laxfirth abattoir

5.2.1 **Licence:** The abattoir at Laxfirth has been issued with full approval by the Food Standards Agency (FSA) to slaughter sheep and goats only (ref. AFC1137). The facility is operated under full Veterinary and Meat Hygiene service supervision.

5.2.2 **Condition:** John Goodman concluded that “the plant is generally in good condition”, both internally and externally. He did however detail 24 points as problems either identified by himself or the SLMG manager during his inspection. He qualified these by noting that these items would have also been noticed during the inspection by the Veterinary Meat Hygiene Advisor (VMHA) when carrying out the FSA re-licensing visit. The VMHA would then judge if these problems are serious enough for the license to be withheld. Clearly these problems were not deemed to be serious, as the FSA re-licensing visit resulted in a full license being granted (see section 5.2.1).

Note this license was granted **after** the 1 January 2006 new EU meat hygiene legislation was enacted, and therefore the VMHA (Peter Austin) would have to have taken it into account.

5.2.3 **Minimum upgrade:** John Goodman had not seen the Laxfirth abattoir’s full license, and so assumed that in order to achieve a full license, the following upgrades would be required:

- A separate temperature controlled cutting room;
- A dispatch dock suitable for dispatching both carcass and wrapped products;
- Additional internal fittings to existing cutting room to provide temperature control and additional space.

The estimated costs for this work are summarised below:

Additional Cutting Room	12 m ²	£1,100	£13,200
New Dispatch Chill Room	16 m ²	£900	£14,400
New Dispatch Dock	12 m ²	£1,100	£13,200
Subtotal			£40,800
Total inc 25% extra for island working (per John Goodman)			<u>£51,000</u>
Total inc 40% extra for island working (per SIC EDU)			<u>£57,120</u>

5.2.4 Upgrade requested by current operator (SLMG) : the following full redevelopment of the Laxfirth abattoir would increase

throughput by a factor of 100%. The following upgrades to the existing facility would be required:

- A mechanised slaughterline with mechanical punchers and a pelt puller;
- A second chill room;
- A cutting room with bone store;
- A packaging store;
- A dispatch chill room for packaged product;
- Additional offices and amenities.

The estimated costs for this work are summarised below:

Improved slaughterline			£30,000
New Railed Chill Room	78 m ²	£1,100	£85,800
New Cutting Room	42 m ²	£1,100	£46,200
New Dispatch Chill Room	44 m ²	£900	£39,600
New Dispatch Bay	16m ²	£1,100	£17,600
New Packaging store, amenities, offices etc.	112m ²	£650	£72,800
Subtotal			£292,000
Total inc 25% extra for island working (per John Goodman)			<u>£365,000</u>
Total inc 40% extra for island working (per SIC EDU)			<u>£408,800</u>

5.2.5 It should be noted that the cost for either upgrade detailed above does not include any provision for professional fees, or any contingencies, both of which should be budgeted as an additional 10% of the project cost respectively. Furthermore, land acquisition is not included in the above totals – this is harder to quantify, but should not be forgotten.

5.2.6 Therefore, excluding land acquisition, estimated costs for the upgrade of Laxfirth are as follows:

Minimum upgrade (£57,120 + 20%)	-	£68,544
Full upgrade (£408,800 + 20%)	-	£490,560.

5.2.7 **Current Activity:** The Laxfirth facility is used to slaughter lambs/sheep for the domestic and national market. There is also a significant number of lambs going through the plant for homekill. SLMG's product website, www.tasteshetland.com, provides information on how their company focus for Shetland branded lamb and beef drives their business forward. Laxfirth provides cutting facilities for the development of their distinctive branded products. They sell to the higher value niche market for clients who appreciate the quality of Shetland produce. The prices paid to farmers reflect the higher sales value which in turns assist in the development of the wider Shetland agricultural industry as SLMG is run as a co-operative.

- 5.2.8 **Current Statistics:** Maximum daily throughput is 200 sheep as they are limited by chilled hanging space for the carcasses. At present the facility is operational 1 – 2 days per week.
- 5.2.9 **Future Opportunities:** The business plans to progress the sale of dried meat product to Faroe as well as build up its Shetland branded product.

5.3 **Boddam abattoir**

- 5.3.1 **Licence:** The abattoir at Boddam has been issued with full approval by the Food Standards Agency (FSA) to slaughter cattle, sheep, goats and pigs (ref. AFC1158). The facility is operated under full Veterinary and Meat Hygiene service supervision.
- 5.3.2 **Condition:** John Goodman concluded, “the main structure of the plant is in good condition but the finishes are poor”. He detailed 15 points as problems either identified by himself or the operator during his inspection. He qualified these by noting that these items would have also been noticed during the inspection by the Veterinary Meat Hygiene Advisor (VMHA) when carrying out the FSA re-licensing visit. The VMHA would then judge if these problems are serious enough for the license to be withheld. Clearly these problems were not deemed to be serious, as the FSA re-licensing visit resulted in a full license being granted (see section 5.3.1 above).

Note this license was granted **after** the 1 January 2006 new EU meat hygiene legislation was enacted, and therefore the VMHA (Mr Sam Mansley) would have to have taken it into account.

- 5.3.3 **Minimum upgrade:** John Goodman had not seen the Boddam abattoir’s full license, and so assumed that in order to achieve a full license, the following upgrade would be required:

- hygienic and easily cleanable yard surfaces;
- hygienic and easily cleanable amenities;
- hygienic route into the plant for staff and visitors via changing and hygiene areas;
- a railed out chill room (not to be used for any other purpose);
- stunning facilities suitable for each species;
- slaughterlines that reduce the amount of manual handling (and possible cross contamination);
- a hygienic route out of the slaughterhall for by-products.

The estimated costs for this work are summarized below:

New Lairage	27 m ²	£650	£17,550
New Staff amenities	58 m ²	£650	£37,700
New Slaughterhall	54 m ²	£1,300	£70,200
New Railed Chill	45 m ²	£1,100	£49,500
Refurnish and Rail existing Chill	52 m ²	£1,000	£52,000
New Cutting Room	45 m ²	£1,100	£49,500
New Dispatch Dock and store	30 m ²	£1,100	£33,000
Subtotal			£309,450
Total inc 25% extra for island working (per John Goodman)			<u>£386,812</u>
Total inc 40% extra for island working (per SIC EDU)			<u>£433,230</u>

John Goodman considered that in the case of Boddam, the minimum upgrade option would in fact also represent a full upgrade, as he considered the facility almost unchanged since construction in the 1960's, and major upgrading would be needed to convert it into a modern food factory.

5.3.4 It should be noted that the cost for the upgrade detailed above does not include any provision for professional fees, or any contingencies, both of which should be budgeted as an additional 10% of the project cost respectively. Furthermore, land acquisition is not included in the above totals – this is harder to quantify, but should not be forgotten.

5.3.5 Therefore, excluding land acquisition, estimated costs for the upgrade of Boddam are as follows:

Full upgrade (£433,230 + 20%) - £519,876.

5.3.6 **Current Activity:** Pure Shetland Lamb has markets for milk lambs, cattle, pigs, Shetland lambs and ewes. In 2006 the business slaughtered large quantities of lamb and linking into product on the UK mainland for onward shipment to Italy. This represented an increase in throughput in 2006 by 637% on 2005. This was not repeated in 2007 due to the national export restrictions imposed during a UK Foot & Mouth Disease outbreak, but it is expected that in 2008 this trade will resume. Conversely their cattle numbers have dropped with a number of farmers preferring to either ship their animals for slaughtering as they find it more cost effective or not finish stock at all, selling it instead as stores for export on the hoof from Shetland.

5.3.7 **Current Statistics:** Maximum daily throughput is 400 sheep @ 35 per hour, 8 cattle @ 1 per hour and 20 pigs @ 5/6 per hour but this is limited by available hanging space. There is capacity to hang 400 sheep carcasses at any one time.

5.3.8 **Future Opportunities:** The business plans to expand its exports to mainland UK, Italy and France next year, whilst

continuing to service homekill lamb and sheep and the slaughtering of cattle and pigs.

6.0 Options for Development

6.1 The options for development of slaughtering services to the benefit of the local agricultural industry which have been considered for this report are as follows:

- | | | |
|----------|---|-------------------------------------|
| Option A | – | Provide no investment at this time; |
| Option B | - | Upgrade existing facilities; |
| Option C | - | Build a new abattoir facility. |

6.2 Option A – Provide no investment at this time.

6.2.1 Both abattoirs possess full operational licences, granted by the relevant body (the Food Standards Agency), and taking into account the current meat hygiene legislation. Despite a consultant identifying areas in which both facilities could be improved, there is no legal requirement for any improvements to be undertaken.

6.2.2 Were there to be circumstances in which works had to be undertaken in order for either facility to regain a full operational licence, neither SLAP as the owner of Laxfirth, nor SDT as the owner of Boddam have any legal obligation to pay for these works. In both cases, under the terms of their respective leases the tenants are required to undertake any necessary works to retain their operational licence.

6.2.3 With the rising costs involved in agriculture as a whole, and finishing livestock in particular, especially in a remote location such as Shetland, there have to be serious doubts about the viability of the finished red meat producing industry in Shetland, particularly for export. There is nothing to indicate that current high retail prices for red meat are anything more than an artefact of price volatility, and the current retail model will ensure that long-term, such higher retail prices when they occur will not be passed back up the food chain to the primary producer or secondary processor.

6.3 Option B – Upgrade existing facilities

6.3.1 Both abattoirs possess full operational licences, granted by the relevant body (the Food Standards Agency), and taking into account the current meat hygiene legislation. Despite a consultant identifying areas in which both facilities could be improved, there is no legal requirement for any improvements to be undertaken.

6.3.2 The operator of Laxfirth, SLMG has indicated that despite cooperating with John Goodman for the purposes of fulfilling

his commission, the principle of upgrading Laxfirth is not acceptable to it.

6.3.3 The operator of Boddam, Pure Shetland Lamb has indicated that their preferred option would be to see Boddam upgraded (albeit they dispute John Goodman's figures, and consider an upgrade could be achieved at a lesser figure than he suggested). Pure Shetland Lamb do however consider that they could continue to operate in their existing premises without an upgrade, although this would by definition constrain the development of their business. Pure Shetland Lamb has provided a business plan by way of justification for the proposed upgrade of Boddam.

6.3.4 The business plan received from Pure Shetland Lamb Ltd needs further input regarding the investment request. The revised plan will be given consideration and further analysis as to its commercial viability and justification for investment, and at this point the mechanism by which an investment is made would be decided upon (Pure Shetland Lamb are currently assuming that the Council would use de minimis to fund this – see 7.2.1-6).

6.4 Option C – Build a new abattoir facility

6.4.1 This Option can only be realised under one of two circumstances:

- A private developer approaches Scottish Government and the Council for financial assistance towards the building of such a facility, on the basis that the private developer will provide at least 50% of the cost of the project, or;
- Both existing operators in Shetland (SLMG and Pure Shetland Lamb) agree to plead imminent market failure, thereby allowing the Council to put a case in the form of a non-paper to the EC for building a publicly owned abattoir facility, with a demonstrable and compelling case for the private sector buying it back from the Council within 5-10 years.

6.4.2 There has been no indication of any willingness in the past from any private developer in Shetland to provide 50% of the cost of a new facility.

6.4.3 While SLMG are prepared to adopt a position of imminent market failure, Pure Shetland Lamb is not. Without the cooperation of both existing operators, this mechanism cannot be initiated. The opinion of third parties as to the viability of either business is completely irrelevant, and the issue cannot be forced by a third party.

7.0 Options for funding mechanisms

7.1 Option A – Provide no investment at this time.

7.1.1 This option has no cost implication for the Council.

7.2 Option B – Upgrade existing facilities

7.2.1 The potential cost to upgrade each facility is as follows (refer to sections 5.2.6 and 5.3.5 above):

Minimum upgrade to Laxfirth*	£68,544
Full upgrade to Laxfirth*	£490,560
Full upgrade to Boddam *	£519,876

* excludes provision for land acquisition

7.2.1 There are two mechanisms by which these upgrades could be funded with a public contribution:

- 50% private and 50% public contribution to the overall project cost. The public contribution would possibly qualify for assistance from the Scottish Government Processing, Marketing and Cooperation Grant Scheme, with any shortfall to the 50% intervention rate being made up from other public sources, i.e. the Council;
- Via the industrial de minimis mechanism, whereby a recipient can receive up to 100% of a project's costs, up to a maximum of 200,000 euros in any rolling 3-year period.

7.2.2 Both SLMG and Pure Shetland Lamb have been explicit that they do not have the capacity to provide 50% of the cost of any of the above upgrades in section 7.2.1. Therefore the 50% private / 50% public mechanism is not viable.

7.2.3 Industrial de minimis provides the means by which the Council could fund, at its discretion, up to 200,000 euros in any 3 year rolling period. At current exchange rates this equates to approximately £160,000.

7.2.4 This would mean that the minimum upgrade to Laxfirth could be covered by industrial de minimis. The full upgrade to both Laxfirth or Boddam would not be possible to cover by industrial de minimis, as there would be a shortfall for both in excess of £330,000 at today's exchange rate. Neither SLMG nor Pure Shetland Lamb has the capacity to make up this shortfall.

7.2.5 Theoretically the only way full upgrades to either facility could be effected would be to phase the works over a 7-9 year period (thus allowing 3 applications of de minimis). There are

obvious practical problems with this approach – the operational capacity of either facility would inevitably be curtailed, perhaps to the point of temporary closure while works were being undertaken, and a piecemeal approach to upgrading would mean that the benefits of the upgrades would be diffused and not immediately felt by either operator, or indeed their customers in the agricultural or retail sectors.

7.3 Option C – Build a new abattoir facility

- 7.3.1 The most recent estimate for the cost of providing a new abattoir facility for Shetland capable of slaughtering 20,000 sheep, 1,000 cattle and 1,000 pigs per annum is in the region of £3.1m to £4.0m (refer to section 3.7 above).
- 7.3.2 There are two mechanisms by which a new abattoir could be funded with a public contribution:
- 50% private and 50% public contribution to the overall project cost. The public contribution would possibly qualify for assistance from the Scottish Government Processing, Marketing and Cooperation Grant Scheme, with any shortfall to the 50% intervention rate being made up from other public sources, i.e. the Council;
 - 100% by the Council with the sanction of the European Commission, on the grounds of actual or imminent market failure (see section 3.10 above).
- 7.3.3 Neither existing operator has the ability to meet 50% of the cost of a new abattoir. Nor has there been any expression of interest to date from any third parties indicating that they might be in such a position.
- 7.3.4 Shetland does not currently have circumstances of actual or imminent market failure with regard to abattoirs; one of the current operators (Pure Shetland Lamb) is clear that their business could continue to operate without any upgrades, and indeed their current Business Plan states that minor upgrades they made themselves in 2006 have improved efficiency, profitability, throughput and carcase quality. The requisite circumstances cannot be forced by the Council, the landlords of the properties in question, or independent third parties.
- 7.3.5 There have been suggestions that the Council should look to Europe to find a precedent elsewhere whereby the 50% public intervention rate has been exceeded. The UK Rep Agriculture and Fisheries Attaché, Nigel Barclay, has provided explicit advice, stating recently that the European Commission
- “just do not have the power to over-rule their own state aid legislation. If it says a maximum of 50% then they will stick to that” (per comm. 6 May 2008).
- 7.3.6 Furthermore, the Council’s Agricultural Development Officer has invested considerable time exploring the Official Journals

of the European Commission. Every single notified state aid is listed here – there is not one single incident where an abattoir has been publicly funded in excess of the 50% intervention rate anywhere in the EU. Indeed, a typical aid intensity to abattoirs appears to be 28.5%.

8.0 Financial Implications

- 8.1 Option C (“Build a new abattoir facility”) is the default situation, as currently £2.4m is budgeted for the building of a new abattoir, on the basis of the decision made on 7 December 2006, and endorsed by the Council on 8 February 2007. This budget would cover the 50% maximum public intervention required to build a new abattoir, assuming a private developer came forwards.
- 8.2 If Option B (“Upgrade existing facilities”) were selected, the funds required would range from an estimated £68,544 to £1.1m (see section 7.2.1 above – the figure here makes an allowance for land acquisition). Funding for this would come either wholly (using industrial de minimis) or partly (50% public / 50% private contribution) from the Council.
- 8.3 Option A (“Provide no investment at this time”) releases a currently stagnant £2.4m into the Economic Development budget.

9.0 Policy and Delegated Authority

- 9.1 This report has been prepared based on Economic Development Policy number 8 which states “Shift the emphasis of the agricultural industry in Shetland to a market led economy which is less reliant on EU and UK subsidy payments” (Dev. Comm. Min. Ref. 01/08), (SIC Min. Ref: 55/08). The provision of a new community abattoir is a delivery mechanism of that policy.
- 9.2 The Development Committee has delegated authority to implement decisions within its remit for which the overall objectives have been approved by the Council, in addition to appropriate budget provision, including:

- Economic Strategy
- Europe

As the recommendation of this report concerns the changing of an existing Council policy to build an abattoir, the Committee does not have delegated authority to make a final decision. Instead, a recommendation has to be made for the Council to take decisions on the report.

10.0 Conclusions

- 10.1 For the past 18 months the Council’s Economic Development Service has been attempting to find the legal means by which to deliver on the decision to 100% fund the building of a new abattoir for Shetland. This has proved impossible to deliver.

10.2 The following is clear and unequivocal:

- Any public investment in an abattoir in the EU **cannot** exceed 50% of the total project cost;
- There is **no** notified precedent elsewhere in the EU for this principle to be varied;
- The European Commission will **not** vary their own state aid legislation.

10.3 On this basis, the decision made by SDT trustees and the previous Council cannot continue to stand. A new decision on the Council's future engagement with Shetland slaughtering facilities must be made in the light of our explicit current understanding of what assistance the public sector can and cannot make in this regard.

10.4 In the absence of a private developer funding at least 50% of the project cost, it is impossible for a new abattoir to be built in Shetland.

10.5 Upgrades of the existing two abattoirs are theoretically possible, funded either 50% public / 50% private, or 100% via a phased application of industrial de minimis. One of the current operators (SLMG) does not want any further development of their facility. The other operator (Pure Shetland Lamb) would like the facility they lease to be upgraded via the industrial de minimis funding mechanism, and has provided a Business Plan in support of this aspiration. However, there are grave doubts as to how practical such a necessarily phased de minimis application would be on the operational capacity of the abattoir, and whether the Business Plan justifies such a large capital investment, particularly as the operator indicated that they could continue to work in their current facility if it remained unaltered.

10.6 Both current abattoirs have full licences to slaughter, and therefore there exists no legal requirement for any works to be undertaken.

11.0 Recommendations

11.1 It is recommended that the Development Committee make a recommendation to the Council for decision as follows:

- a) annul the previous decision to 100% fund the construction of a new abattoir in Shetland;
- b) agree that in the absence of a private developer prepared to fund at least 50% of the cost of a new facility, and the stated position of both current abattoir operators, the Council at this time should agree to provide no further investment (Option A).

Our Ref: JD/KLM
Date: 30 May 2008

Report No: DV026-F



REPORT

To: **Executive Committee**

01 February 2007

From: **Head of Economic Development**

DV002-F
Shetland Development Trust
Investment in New Abattoir Facilities in Shetland

1.0 Introduction

- 1.1 The availability of sufficient and high quality abattoir facilities to enable the development of added value to Shetlands unique livestock produce has long been a development aim of the agricultural community. The Development Trust have been considering options, in the context of existing facilities in Shetland to enable the investment and therefore create such facility. A report was recently presented to the Trust which is appended and a decision, minute extract appended, taken to invest up to £2.4m of the Trusts capital in this proposal.
- 1.2 The Development Trusts decision is that an SIC development team in the context of this decision and capital finance being made available from the Trust take forward this proposal to completion.

2.0 Links to Corporate Priorities

- 2.1 Sustainable economic development and ensuring that our economy is prosperous, competitive and diverse are priorities of the Council's Corporate Plan. The role of the SDT is to give direction to the development of the Shetland economy through the provision of finance. SDT support is aimed at projects which lead to the development of Shetland's industries on a long-term sustainable basis.

3.0 Financial Implications

- 3.1 There are no direct financial implications for the Council arising from this report.
- 3.2 The financial implications for the SDT as per the agreed motion is the provision of £2.4 million to provide a new meat processing and abattoir facility as an essential piece of infrastructure in Shetland.

4.0 Policy and Delegated Authority

- 4.1 This report is being presented to the Executive Committee in accordance with its remit for policy and planning co-ordination and economic strategy (Min. Ref. 90/03).
- 4.2 In respect of applications to the SDT above £250k, a decision of the Council is required, following a recommendation by the SDT and the Executive Committee (SIC Min. Ref. 13/04). Accordingly, the committee does not have delegated authority to take a decision to award investments at the level proposed in this report, and must therefore make a recommendation to the Council for approval.

5.0 Recommendations

- 5.1 That the Executive Committee approve the decision of the Development Trust to invest up to £2.4 m of its capital in the provision of a new Abattoir facility.
- 5.2 That the SIC agree to form a team to take forward this decision to completion Taking account of all factors in doing so including consultation with the industry, operators of existing facilities and any state aid issues.

Date: 4 January 2007
Our Ref: SK/SDT

Report No: DV002-d1



ShetlandDevelopmentTrust

CONFIDENTIAL REPORT

07/12/06

OPTIONS FOR THE DEVELOPMENT OF ABATTOIR FACILITIES IN SHETLAND

1.0 Introduction

- 1.1 This report concerns abattoir provision in Shetland and the various options available for the development of this service to the benefit of the local agricultural industry.
- 1.2 In addition to outlining the current service provision the report describes the following as possible options for future development:
 - Provide No Investment
 - Upgrade Existing Facilities; and
 - Building a New Abattoir Facility
- 1.2 The examination of the options cover the initial estimates for the capital investment required, likely operational cost implications for the operator of a new facility and the funding options for the required capital expenditure.
- 1.3 Trustees are asked to consider the options available and make a decision on whether to approve an infrastructure investment into future abattoir provision.

2.0 Background

- 2.1 A study into the Future for Livestock Production in Shetland was commissioned by the SIC with the final report being presented to the local Shetland Economic Development Forum in August 2005.
- 2.2 As part of the report Shetland's existing slaughter and processing facilities, namely Boddam and Laxfirth, were inspected and commented on by the authors and consultants. (Refer to Appendix 1 for the background of the individuals involved in preparing this report and the further work which was subsequently undertaken to provide information on the provision of a new abattoir facility for Shetland) The main authors were Peter Cook and Howard Whiteley (Cook & Whiteley), experts in their field.
- 2.3 The first report, Appendix 2, concentrated on the factors which limit the profitability of the facilities as slaughterhouses and meat processing sites, and

provided indicative costs for upgrading each facility to tackle the issues. Sections 4.0 and 5.1 - Option B highlights the findings from this report.

- 2.4 Following a request from industry a further report, Appendix 3, was commissioned by the SIC to look at the capital and operating cost estimates for a new abattoir facility at Staneyhill in Lerwick. The finding of this report is presented in Section 5.1 - Option C.

3.0 Analysis of Service Need

- 3.1 The agricultural industry in Shetland is placing increasing emphasis on finishing stock in Shetland, either for local consumption or export under various Shetland-specific brands. Numbers of livestock slaughtered at the two operational slaughtering facilities in the islands are on the increase. The trends in slaughtering numbers, provided by the Meat Hygiene Service, are as follows:

		<u>2004</u>	<u>2005</u>	<u>To Oct</u> <u>'06</u>	<u>Total</u> <u>'06*</u>
Laxfirth	Sheep	3,386	4,135	3,723	5,100
Boddam	Sheep	945	1,256	6,408	8,000
	Bovine	299	282	66	70
	Pig	271	73	73	76
Total Sheep		4,331	5,391	10,131	13,100

** Estimate to end of 2006*

- 3.2 Consumers, particularly in the UK have become more affluent and prepared to pay a premium for high quality red meat with a strong story behind it. This was confirmed by independent market research in the report "Developing the Opportunity for Shetland in the Premium Meat Market" (Promar International, 2005). A lucrative and under-supplied market for air-dried sheep meat exists in Faroe and Denmark. There is a national move towards local procurement, which is likely to drive a greater demand for locally sourced meat in Shetland itself. Markets clearly exist for Shetland Lamb, and more specialised markets for Shetland mutton and beef respectively.
- 3.3 Both Shetland Livestock Marketing Group (SLMG) and Pure Shetland Lamb Ltd have stated unequivocally in their respective business plans, to Messrs Cook & Whiteley during the consultation work and in the local media that their operations are hindered by the facilities in which they currently operate. These restraints are highlighted in Section 4.0 of this report.
- 3.4 The need for better slaughter and processing facilities in Shetland as a whole was confirmed by the report attached as Appendix 2, which identified considerable limiting factors for both existing facilities.
- 3.5 Shetland's agricultural industry has in recent years undergone a period of consolidation. The decoupling of CAP support means that subsidy income is no longer related to livestock numbers; this, combined with the net effect of the

National Scrapie Plan (NSP) has led to a significant reduction in the total number of sheep being kept in Shetland. Cattle numbers meanwhile have recovered from their nadir in the 1980's, and in conjunction with environmental schemes such as the Interreg IIIB 'Voar Project' are showing a modest increase across Shetland.

- 3.6 With rising fuel prices and the introduction of a meterage pricing system on the ferry route to mainland Scotland, transport costs have risen for the agricultural industry as a whole. The effect of this is manifested in a slimmer margin for the producer when exporting livestock out of Shetland. This being the case there is an increased attraction for local producers to finish animals in Shetland. However, this is reliant on the price being offered at any point in time.
- 3.7 Grants available to the industry from the Scottish Executive and Shetland Islands Council have also changed radically in recent years; there is an increased focus in SEERAD schemes on the environmental gains to be had from low levels of stocking; and SIC's grant portfolio has been severely curtailed by compliance with state aid legislation.
- 3.8 The agricultural industry in Shetland is gradually adjusting to these winds of change, as it is forced by circumstance to reappraise what constitutes a sustainable strategy for the future. With the decrease in numbers of sheep being exported as store lambs (from 120,000 in 1996 to 96,000 excluding NSP exports in 2004), there has been a small but significant move towards finishing lambs in Shetland.
- 3.9 Markets for Shetland sheep meat are as follows:

3.9.1 Domestic (Shetland)

Homekill accounts for an estimated 20,000 sheep per annum. Figures of this unregulated procedure are necessarily imprecise, but 2,036 sheep were slaughtered in 2005 at SLMG's facility at Laxfirth, and so far in 2006 approximately 1,400 have been slaughtered at that facility. SLMG expect the final year-end figure to show a modest increase on 2005. A growing number of crofters prefer to have their homekill dealt with by professionals in a dedicated slaughter environment, rather than by themselves on their own steadings. This is set to increase as regulations become more stringent and the skills to slaughter at home are less prevalent.

SIC is currently moving towards a position whereby local food procurement assumes the importance it rightly should have. A significant increase in demand for lamb, mutton and beef can be expected if Shetland's publicly run institutions take regular deliveries of locally finished meat as a matter of course. This is part of a national trend towards recognising the importance and nutritional value of fresh local food, and it is reasonable to expect that the NHS will in time change its procurement policy to reflect this also.

3.9.2 National (UK)

Market research undertaken by Promar International in 2005 determined that intense competition by major retailers, particularly in terms of pricing has led to a market in which the future lies in creating niche premium products. Rising levels of disposable income amongst consumers, a growing media-driven interest in food generally, and rising consumer confidence with red meat following the BSE and FMD food scares all point towards a willingness amongst consumers to buy greater quantities of high quality red meat products. Demand is currently highest for beef, followed by lamb in second place.

Currently Shetland lamb is virtually unknown in the UK market, with only a few independent producers selling small quantities of lamb from the Shetland breed (incidentally, in breach of the Protected Designation of Origin awarded to Shetland Lamb) and one Shetland-based producer successfully selling small amounts of lamb and beef via independent retail outlets in Edinburgh and London. However, Promar's research confirmed that the marketplace as a whole showed interest in the relatively unknown premise of Shetland lamb. The 'story' as a whole behind the product was considered to be strong and unique, provided that the product was of consistent quality and taste, and came with unimpeachable traceability.

Potential customers for Shetland lamb (and to a necessarily lesser extent beef) in the UK are multiple retailers; independent retailers; intermediaries (wholesale and catering butchers); chefs; and direct sales to consumers. The Promar market research provided SLMG with contact details of interested parties from across the customer spectrum, from supermarkets, restaurants, wholesale and catering butchers, with the caveat that the volumes required by multiple retailers may represent a more long-term opportunity – Promar considered that for the UK market, "Shetland meat needs to create an element of exclusivity with regard to product, and multiple retail may not be the best route to achieving this".

3.9.3 Scandinavian (currently Faroe & Denmark)

Given Shetland's proximity to Scandinavia and elements of shared culture, Shetland is in a strong position to exploit its proven ability to produce lamb and mutton. Meat consumption as a whole is high in Scandinavia; for example, in Faroe alone an average of 18kg of dried sheep meat is consumed per capita per annum. The population of Faroe and Faroese expatriates in Denmark numbers approximately 63,000 individuals. The implication of this is a total annual market for dried sheep meat alone of 1.1million kg, or 75,600 sheep. Demand outstrips supply, and SLMG in conjunction with Professor Hugh Pennington and Aberdeen University are investigating the means to produce air-dried sheep meat in a manner that will satisfy EU environmental health legislation. Air-dried sheep meat, or vifda as it was formerly known in Shetland commands a premium price amongst the Faroese community.

The Scandinavian market is not confined to Shetland-produced vifda; in 2005 Pure Shetland Lamb Ltd identified in their May 2005 Business Plan the opportunity to export fresh consumer packs, primals and reestit mutton to the Faroese market. Pure Shetland Lamb Ltd anticipated that 30% by volume market share for Shetland sheep meat was attainable in Faroe by the end of the 2005/06 financial year – unfortunately this was not realised, due to a combination of uncertainties over the Smyril link to Faroe, and a lack of slaughter and processing capacity in their current premises. The Faroese market therefore remains a proximate and enticing prospect for Shetland producers.

3.9.4 Southern European

Lamb continues to form a strong market in Southern European countries, notably Portugal, Spain, Italy and Greece. More than anything, Shetland's distance from market has precluded any exploitation of this latent potential, although anecdotal evidence suggests that a number of lambs exported from Shetland as stores end up in mainland Europe. In August 2006, Pure Shetland Lamb Ltd announced a contract to export 20,000 lambs to Italy by December 2006. At the time of writing an estimated 8,000 lambs have been slaughtered and shipped out of Shetland.

3.9.5 Local Beef Market

Beef is a woefully underexploited resource in Shetland. Whilst the generally poor quality of much of the Shetland landmass predicates against significant numbers of beef stock, there is nevertheless a potential market domestically at least for locally reared beef. The "Red Meat Processing & Marketing in the Highlands & Islands" report (2002) identified that beef consumption in Shetland was at a level equivalent to 1,200 carcasses per annum. It is well within Shetland's means to address this from local stock, given time, a willing local market and processing resources. We estimate it would take 8 years to reach an annual beef slaughter figure of 1,000 animals.

In 2005, 282 beef cattle were slaughtered in Shetland. The number in 2006 is considerably lower, and is expected to be a mere 70. SLMG's facility at Laxfirth is unable to slaughter cattle, and a significant part of the industry appear to find the end-product of the beef slaughter and cutting process at the facility at Boddam does not meet their expectations. It would be pertinent to state that this latter point is certainly attributable to the limitations of the facility itself rather than any failing on the part of the operators.

- 3.10 In 2005, SIC commissioned an independent analysis of future livestock numbers in Shetland, taking into account recent trends, external influencing factors, and likely industry reactions to the aforementioned. The subsequent report provided three possible scenarios for finished livestock numbers in Shetland in 5 and 10

years time. These are summarised in Table 1 below shows figure for finished lamb production:

	Scenario 1 Higher numbers	Scenario 2 Recent trends continue	Scenario 3 Lower numbers
Lamb production – 5 years	145,650	145,650	125,500
Lamb production – 10 years	163,150	142,500	104,300
Assumption 1. Finishing subsidy continues.			
Sold finished %			
5 years	10%	15%	20%
10 years	10%	20%	30%
Numbers sold finished			
5 years	14,565	21,848	25,100
10 years	16,315	28,500	31,290
Assumption 2. No finishing subsidy.			
Sold finished %			
5 years	5%	5%	10%
10 years	5%	10%	20%
Numbers sold finished			
5 years	7,282	7,282	12,550
10 years	8,158	14,250	20,860

Source: Study into the future for livestock production in Shetland, July 2005.

- 3.11 The above suggests, in 10 years time, a minimum future finished lamb total of around 8,000 head per annum and a maximum of approximately 31,000. In 5 years time the above suggests a minimum of 7,000 finished lambs available and a maximum of 25,000.
- 3.12 In the past, SIC offered a grant to address the additional costs incurred by the agricultural industry over their counterparts finishing lamb elsewhere in the UK. This Finished Lamb Scheme was paid on a headage basis; this scheme was stopped when it came to SIC's attention that legislatively (if not logically) it was deemed to breach state aid as a potential distortion of competition. The forecast above predated this development, but took this into account by providing two assumptions.
- 3.13 While it is currently not possible to continue with the Finished Lamb Scheme as it existed previously, it is however possible to provide assistance under the Shetland Agricultural Business Scheme de minimis provision, in the form of a payment of £350/ha towards crops for winter fodder. Assuming producers choose to take up this option, the economics of finishing lambs in Shetland remain unchanged from Assumption 1 in Table 1 above – a minimum of 14,565 and a maximum of 25,100 lambs finished in 5 years time, and a minimum of 25,100 and a maximum of 31,290 in 10 years time.

- 3.14 In addition to the need for capacity to slaughter lamb there will be need for the provision to slaughter homekill sheep and cattle. Homekill number is not known and is difficult to derive, as previous numbers are not recorded, refer to Section 3.9.1. The following table shows the possible scenarios for future cattle slaughter, identified in the 2005 livestock numbers study.

	Scenario 1 Strong Store Trade + Env. Support	Scenario 2 Decline in Store Trade + Less Env. Support
Cattle for Slaughter - 5 years	200	200
Cattle for Slaughter - 10 years	200	400

4.0 Existing Facilities

- 4.1 There are two operational abattoirs in Shetland:

Laxfirth - operated by Shetland Livestock Marketing Group (SLMG) and owned by SLAP

Boddam - operated by Pure Shetland Lamb Ltd and owned by SDT.

4.2 Laxfirth Slaughterhouse

Licence: The abattoir at Laxfirth has been issued with conditional approval by the Food Standards Agency to slaughter sheep only. In order to gain full approval, the premises must meet the requirements laid down in EC852/2004 and EC853/2004 regulations. The operator is required to undertake some remedial work to the building and update some paper records to have the conditional licence lifted and full approval given. The facility is operated under full Veterinary and Meat Hygiene service supervision.

Condition: The slaughterhouse itself is in an extremely good condition for its age. It is well operated, well maintained and clean and consequently currently scores highly (93 out of 100) on the Meat Hygiene Service - Hygiene Assessment Scheme. (Photographs are available for any Trustee not undertaking the site visit) A plan of the premises is attached at Appendix 4.

Undoubtedly some of the apparent “good condition” is attributed to the fact that over the years the low throughput of carcasses passing through the plant means that it has not been worked very hard. It should also be borne in mind that it is easier to maintain a small stock plant than one slaughtering larger animals such as cattle.

Current Activity: The Laxfirth facility is used to slaughter lambs/sheep for the domestic and national market. There is also a significant number of lambs going through the plant for homekill. SLMG’s product website, www.tasteshetland.com, provides information on how their company focus for

Shetland branded lamb and beef drives their business forward. Laxfirth provides cutting facilities for the development of their distinctive branded products. They sell to the higher value niche market for clients who appreciate the quality of Shetland produce. The prices paid to farmers reflect the higher sales value which in turns assist in the development of the wider Shetland agricultural industry as SLMG is run as a co-operative.

Current Statistics: Maximum daily throughput is 200 sheep as they are limited by hanging space for the carcasses. At present the facility is operational 1 – 2 days per week.

Future Opportunities: The business plans to progress the sale of dried meet product to Faroe as well as build up its Shetland branded product.

Limitations to Potential Profitability: The report by Cook & Whiteley highlighted the following as issues for the premises future:

- Inadequate lairage space for livestock
- Limited chill capacity for carcasses
- Limited meat cutting facilities at the factory
- Inability to slaughter other species such as cattle or pigs
- Seasonality effect on a single species factory
- Tendency of farmers to ship animals to the mainland live
- Lack of consistent higher value market and brand identity

4.3 Boddam Slaughterhouse

Licence: The abattoir at Boddam has a conditional approval for a full EU licence, allowing the slaughter of sheep, pigs, cattle and goats. The facility is operated under full Veterinary and Meat Hygiene service supervision. The operator is required to undertake upgrade to various sections of the abattoir, rationalise the use of a reefer for storage, and update HACCP records to lift the conditional licence.

Condition: The facility is quite basic consisting of lairage, a slaughterhall, a carcass chillroom and a small toilet and store area. A recent survey carried out by Michael Thomson stated that while the facility was in a reasonable condition for its age there were a number of defects. Although the facility is basic in terms of structure and technology it is in reasonably good order and is kept clean. Some maintenance is required to walls, floor and ceiling services. (Photographs are available for any Trustee not undertaking the site visit) A basic plan of the premises is attached as Appendix 5.

The facility is now owned by the Shetland Development Trust and is operated by the Smith family in conjunction with their butchers shop in Lerwick.

Current Activity: They have markets for milk lambs, cattle, pigs, Shetland lambs and ewes. The business has recently taken to slaughtering large quantities of lamb and linking into product on the UK mainland for onward

shipment to Italy. They have increased throughput in 2006 by 637% on 2005. Conversely their cattle numbers have dropped with a number of farmers preferring to either ship their animals for slaughtering as they find it more cost effective or not finish stock at all, selling it instead as stores.

Current Statistics: Maximum daily throughput is 400 sheep @ 35 per hour, 8 cattle @ 1 per hour and 20 pigs @ 5/6 per hour but this is limited by available hanging space. There is capacity to hang 400 sheep carcasses at any one time.

Future Opportunities: The business plans to expand its export to Italy next year, whilst continuing to service homekill lamb and sheep and the slaughtering of cattle and pigs.

Limitations to Potential Profitability: The report by Cook & Whiteley highlighted the following as issues for the premises future:

- Inadequate lairage space for livestock
- Limited chill capacity for carcasses
- Limited meat cutting facilities at the factory
- Inability to slaughter higher volumes of sheep
- Lack of a full EU Slaughtering licence

5.0 Options For Development

5.1 The options for development of the slaughtering services to the benefit of the local agricultural industry which have been considered for this report are as follows:

- A. Provide No Investment
- B. Upgrade Existing Facilities; and
- C. Build a New Abattoir Facility

OPTION A - PROVIDE NO INVESTMENT

A 1.0 The pros and cons of this investment option are attached as Appendix 6.

A 1.1 This option has no financial implication for the Trust. There would be a strong possibility that the existing facilities would close in the short to medium term as neither business has the capital required to fund any improvements required to the premises to keep their individual operators licence.

A 1.2 The Trust purchased the Boddam Slaughterhouse in August 2006, minute ref. 38/06 because the property was seen of sufficient importance to Shetland, as stated in the report to the SIC Executive Committee report of 20th June 2006. This being the case it could be argued that the Trust has some obligation to keep the premises operational and consider providing no investment as a valid option.

A 1.3 This option was favoured by quite a few of those who were interviewed by Cook & Whiteley. It forces co-operation between the two existing abattoirs, ensures the businesses involved have to prove they have a market and can grow before capital funds are committed.

OPTION B - UPGRADE EXISTING FACILITIES

B 1.0 The two main slaughter and processing facilities in Shetland were inspected as part of the report which was commissioned by the SIC in 2005. Cook & Whiteley held discussions with the slaughterhouse operators to gain an overview of the main issues which they felt had the potential to limit their profitability as meat processing sites.

B 1.1 To ensure that part of the cost to upgrade each of the slaughtering can be recouped in rent it is essential that the Trust acquire ownership of the Laxfirth slaughterhouse which is currently owned by SLAP. Initial discussions indicate that the building will cost £15,500. However, there is a lairage issue which needs to be addressed and an estimate of £25,000, for land purchase, has been included in the costings. There is also a potential that a building can be sourced and rebuilt if the land cannot be purchased but this has not been discussed with the owner and is only an option of how to develop the Laxfirth facility if this option is chosen.

B 1.2 The indicative costs for upgrading each facility to tackle the main structural issues, as explained in sections 4.2 and 4.3, non-structural issues are not included in the costings:

Structural Issues	Laxfirth	Boddam
Capacity	£41,000	£42,000
Capacity*	£53,000	£59,300
Processing facilities	£75,000	£75,000
Slaughter	£45,000	-
Slaughter	£30,000	-
Sheep Slaughterline	-	£52,000
Upgrade Licence	-	£73,200
Cost of Building and Lairage	£40,000	
Provision for General Maintenance	£25,000	£30,000
Indicative Cost Total	£309,000	£331,500

* includes a £15,000 allowance for any additional steelwork and refrigeration factors

B 1.3 The pros and cons of this option are stated in appendix 7.

B 1.4 In summary, the abattoirs of Laxfirth and Boddam operate in what could be described as a symbiotic relationship. If both abattoirs were to upgrade they would be much less reliant on each other but would be head to head in terms of competition for available Shetland livestock. If the numbers of livestock continues to decline it may be that the numbers of finished lambs improves a little but the decline may be accelerated by other factors such as the scrapie

scheme. In this dwindling livestock situation and with the possibility of mainland factories raiding the stocks of finished lambs, the numbers available to Laxfirth and Boddam may not be sufficient to sustain both plants. Conversely, if ferry and transport costs were to rise then the outlook for the plants would be better. In the marketplace the competition is less of an issue as, at present, the two plants serve generally different customers.

- B 1.5 Both plants need more volume in order to generate operating profits and both plants need finance in order to be able to carry out their necessary upgrades. Therefore the financial obligation to the Trust to approve this option is in the region of £650,000. However, these costs are based on consultation some 18 months ago.
- B 1.6 Assumptions have been made that the land for expansion is available for purchase and that the existing septic system can cope with an increased throughput by the individual plants. There has been no analysis done on the increased operating costs to the individual operators once the upgrade had taken place but it is accepted that these will be more in line with the current expenditure than the operational costs of a new facility.
- B 1.7 It is unfortunate that the same level of research has not been done on this option compared with the detail in Option C to ensure that a balanced and fair judgement can be made. Therefore if this option is preferred it is recommended that a full and open consultation exercise be taken with the current operators to assess their aspirations for upgrade as well as ensuring that the development can overcome any site restrictions.
- B 1.8 For decision making purposes it is recommended that a conservative budget of £1m be approved if Trustees wish to select this option to upgrade the existing facilities.

OPTION C - BUILD A NEW ABATTOIR FACILITY

- C 1.0 Following an approach to the Trust with regarding to the provision of new slaughtering facilities the mechanism by which the facilities could be provided within State Aid rules was passed by the SDT's lawyers, Brodies LLP. The options for delivery of the project were as follows:
- i. Funding is provided to an operator by way of venture capital investment to enable the building of a new slaughterhouse
 - ii. SDT builds a new slaughterhouse as infrastructure for the common economic good of Shetland and, once constructed, secures an operator through a public tender process with the aim of securing an operator who will operate the new slaughterhouse with minimum subsidy from SDT
 - iii. SDT builds a new slaughterhouse and through public tender secures an operator which will run the facilities for the benefit of a community co-

operative of agricultural producer members with the selected operator being paid an operation fee with the operator in turn paying a levy to SDT to cover maintenance and to provide a return on the initial investment.

Each of these options were assessed, refer to Appendix 8, for the full comment from Brodies LLP.

The initial preliminary conclusion in terms of these options and subsequent State Aid compliance was that: "Option 2, would appear capable of resulting in the project being outwith the scope of state aid"

C 1.1 A feasibility study to ascertain accurate costings for a new, purpose-built abattoir in Lerwick, at Staneyhill was tasked to Cook & Whiteley in January 2006. A potential site was identified as being next to the Marts building at the Staneyhill in Lerwick since this site is recognised as being the agricultural base for services to the industry as a whole.

C 1.2 The tasks given to Cook & Whiteley consisted of providing a capital cost estimate and indicative operating costs for a new EU standard abattoir, capable of:

- slaughtering 20,000 sheep, 1,000 cattle and 1,000 pigs per annum. The abattoir would have:
- lairage for pigs, cattle and 250 sheep
- a carcass chill for beef and a separate chill for 400 lambs
- building works and utilities within the building
- offices and amenities
- a septic tank and a simple lorry wash
- refrigeration and insulation including floors
- cutting hall
- freezing facilities
- any additional costs for a facility not using the shared facilities from the Marts building

C1.3 The estimated costs for providing the new facility is summarised below, full details can be found in Appendix 3:

Building Works	£924,270
Internal Works and Equipment	£784,335
Chill and Cutting Room + Freezing Capacity	£153,000
Contingency for unknowns	£300,000
Total Cost*	£2,161,605
Additional Cost if No Shared Facilities with the Marts Building	£176,095
Total Cost with no reliance on the Marts facilities	£2,337,700

** initial costs were based on lairage, waste and some office facilities being shared with the Marts building.*

C1.4 These costs are in line with the cost of a new slaughterhouse facility which is currently being procured in Caithness for £2.4m. The Caithness facility is being built by a private operator attracting grants of £816,000 from SEERAD and £350,000 from HIE, grants which unfortunately cannot be accessed by SDT/SIC for a new facility in Shetland as it is not being build by a private operator. There is also £450,000 being provided from the operators private funds with the remainder coming from commercial lending.

C 1.5 The operational costs of the new facility are vital to the assessment. It must be assessed whether the business can run profitably.

The operational costs have been prepared by Cook & Whiteley based on their vast experience in the industry, particularly the Highlands of Scotland which is comparative to Shetland.

C 1.6 The Operational Costs have been assessed on the following basis:

- the new facility will be run as a municipal abattoir where the facility is used by more than one business with the slaughtering and cutting being done at the abattoir and transported to private facilities for further processing and packaging.
- Capital Cost for the Abattoir of £2,161,605 (reliant on Marts building for some services, i.e. effluent and lairage, should be higher if no dependence on their services)
- Rent of the new facility is based on a 30 year write off of capital and interest
- Livestock processed through the plant are owned by the individual meat processors/wholesalers. Therefore there is no interest charge included for the working capital tied up in stock purchases
- There is enough availability of slaughtermen and butchers on a part-time basis over the year and their willingness to be paid a piece rate.
- Rates figure is based on £20,000 per year
- The operational costs are estimated based on knowledge of existing facilities costs and several small abattoirs around the Highlands
- The facility operates at full capacity from day 1

C 1.7 The profit and loss results have been calculated as follows:

Income (including MLC levy)

Lambs 20,000@ £7.50	150,000
Cattle 1,000 @ £70	70,000
Pigs 1,000 @ £17	17,000

Hide: Lambs @ £0.70 Cattle @ £20	<u>34,000</u>
	271,000

Expenditure

MLC Levy/QMS/MHS/Vet	34,520	
Slaughter/Butchery Labour on piece rate	83,000	
Management Administration and Office Staff Costs	16,400	
Consumables i.e. ammunition, slat, chemicals	7,000	
Electricity and Water	16,000	
Transport i.e. hides, consumables, waste to incinerator, etc.	7,000	
Rates	20,000	
Insurance	7,000	
Property Upkeep, Cleaning	9,600	
Waste Disposal i.e. blood and guts	8,000	
Laboratory, Professional Fees	2,400	
Accountancy and Legal Fees	4,000	
Staff Training, Certification and Clothing	5,000	
Rent, based on 30 year capital and interest write-off which is a commercial rent (higher if no shared services)	<u>192,240</u>	
		412,160
Net Slaughtering Margin (Loss)		(141,160)
Margin if no rent (at 30 year write-off)		51,080

Impact on margin if:

throughput is 10% less	(12,698)
labour cost 10% higher	(9,340)
abattoir has 20 year rather than 30 year write-off	(28,080)

C 1.8 In addition to the pros and cons for this development option (Appendix 9) the main conclusions to be made on this option are as follows based on the information in the above sections:

- If the operator of the new facility must carry a fully commercial rent, which is required to reduce the risk of an illegal State Aid, then the above figures suggest it will make a substantial loss. A market rate for rent should be assessed.
- If there is no rent on the new facility then a profit of over £50,000 is expected, as long as the abattoir operates at full specification capacity (20,000 lambs, 1,000 cattle, 1,000 pigs)
- The total of the present slaughtering throughputs from the existing abattoirs is 13,100 lambs, 70 cattle and 76 pigs, see section 3.1.
- Margin is highly sensitive to throughput. If less than target is achieved the losses will mount rapidly. Conversely, higher throughputs would help the facility get closer to break-even.
- The break-even throughput, for a rent-free scenario, is around 12,000 sheep, 600 cattle and 600 pigs – around 60% of the specified capacity for the

abattoir. However, providing a facility without rent is clearly an illegal State Aid.

- The facility will have to be subsidised for it to be successful.
- The capital cost of the facility, and how this reflects on the rent, is obviously a major issue. The estimations for the abattoir costs have been established by experts in their fields with the help of professional quantity surveys. There has also been significant work done preparing site surveys so that the costs can be as accurate as possible.
- Central to the assessment are two assumptions 1) The decision by Shetland producers to finish a significant number of lambs and cattle and to send them to this abattoir rather than to sell store or to sell finished to another abattoir. 2) That a meat business attached to this abattoir can buy the stock and cover the loss on slaughtering from the profit it makes on further processing and marketing.

5.2 A summary of the options are as follows based on facts and figures presented in the above sections are as follows:

		Option A	Option B	Option C
Capital Required		£0	Approx £1m	Approx £2.34m
Chill Capacity	Sheep	600	800	400
	Cattle	10	26	16
	Pigs	10	20	10
No. of operators		2	2	1
Operational Costs compared to present		Similar	Slightly Higher	Significantly Higher
Requirement for Direct Operator Subsidy		None	Maybe	Yes
State Aid Risk		Low but existing risk still remains	High if subsidised	Higher than Option B if Subsidised

6.0 Financing Options

6.1 The alternatives for the provision of financial resources to enable the preferred option for the development of abattoir facilities are as follows:

- 6.1.1 SDT existing capital is used as the options fit with current SIC policy. The state aid implications of providing funding for these purposes were passed to Brodies for comment. Refer to Appendix 8 for the response. The Trust would fund the preferred option as either the landlord of the facility or the provision of infrastructure should Option C be preferred.
- 6.1.2 SIC provides SDT with a grant to fund the development of facilities as the request for finance is seen as bringing value to the economic development of the agricultural industry.

- 6.1.3 SDT Trustees ask the SIC to fund the preferred option through the capital program which will be assessed through the Capital Projects Prioritisation Matrix. It is difficult at this time to know how this project will fare through this process but it is likely not to be high priority in a list of projects totalling £115m, including the new Anderson High School.

7.0 Financial Implications for Trust

- 7.1 Should the preferred funding route be SDT funds it is noted that the Trust has the funds required for either of the development options ranging from £0 to £2.34m. Therefore the only financial implication to the Trust is that once this money is spent it will not be available for any other investments.
- 7.2 However, it is noted that an option to upgrade the existing facilities has been identified as being potentially significantly cheaper than the building of a new facility.
- 7.3 If option B or C is selected as the preferred option the decision will have to go before the full Council for ratification.

8.0 Policy

- 8.1 This investment is in line with the SIC's EDU investment policy under sections 2.4.1 and 3.1.2:
- 2.4.1 "Adding more value in existing sectors, particularly food e.g. seafood and lamb."
- 3.1.2 "Generate improved product quality and greater efficiency of production in all agricultural sectors."

9.0 Conclusions

- 9.1 Given the proven growth in output, the market potential for Shetland meat, and the constraints in the existing facilities, the need for improved slaughter and processing infrastructure for the benefit of Shetland as a whole is undeniable.
- 9.2 With the potential lamb throughput set to double in the next 5 to 10 years it is deemed that now is the time to address the constraints on the current slaughtering provision in Shetland.
- 9.3 If the option to upgrade the current abattoir facility is seen as the preferred option to development further investigation will be required into the work required on the facilities following consultation with the existing operators. It is suggested that the upgrades required can be achieved within a budget of £1m and this figure should be used for the decision making, however, further work

is required on exact costing and whether the work can be done within the constraints of the existing sites.

- 9.4 Both existing abattoir operators have sought to enhance or upgrade their facilities, though circumstances have in both instances made this unachievable at the time, mainly due to lack of capital within the separate business. Therefore funding of an upgrade will have to come from SDT or SIC funds, as outlined in Section 6.0 of this report.
- 9.5 Many factors affect the viability of a new abattoir, the key points being:
- not having to pay the full costs of servicing the capital investment
 - finding an operator/user which adds a lot of value to the carcass/ maximises use of the carcass, who can justify relatively high slaughter costs
 - successfully growing the business to use the facility to capacity and to pay prices which compete with other potential destinations for Shetland stock, i.e. live shipment
 - any direct subsidy provided to the operator from public funds is likely to be an illegal State Aid.

10.0 Recommendations

- 10.1 It is recommended that Trustees agree in principal to investing resources in developing Shetland's slaughtering provision.
- 10.2 It is further recommended that Trustees defer making a decision on the development options until a full appraisal can be made on upgrading existing facilities.
- 10.3 If the Trustees wish to select Option C it is recommended that operators are sought who can demonstrate viable use of the new abattoir prior to any capital investment being made and that the full report be presented for consideration and decision by the full Council.

List of Attached Appendices

Appendix 1	Biographies
Appendix 2	Study into the Future for Livestock Production in Shetland
Appendix 3	Draft Report and Operating Cost Estimates for a Facility at Staneyhill, Lerwick
Appendix 4	Plan of Laxfirth Facility
Appendix 5	Plan of Boddam Facility
Appendix 6	Pros and Cons of Option A – No Investment
Appendix 7	Pros and Cons of Option B - Upgrade Existing Facilities
Appendix 8	Brodie's Comment
Appendix 9	Pros and Cons of Option C - New Build Facility



Shetland**Development**Trust

Excerpt Minute from the Shetland Development Trust meeting held on 6th December 2006.

118/06 **Options for the Development of Abattoir Facilities in Shetland**

Trustees considered a report by the Project Manager (S Keith) (Appendix 1).

A lengthy discussion followed during which some Trustees did not agree with some of the views expressed in the report particularly the state aid and competition issues.

Mr W A Ratter moved the following:-

- The Shetland Development Trust believes that there is an urgent need for a meat processing and abattoir facility to be provided as an essential piece of infrastructure in Shetland, which is available on equal terms to all users. The Shetland Development Trust proposes to set aside up to £3 million for the purpose of providing it.
- The Shetland Development Trust recommends to Shetland Islands Council that this project be taken forward, and that a team be set up to bring it to completion.

Mr R Eunson seconded.

Ms D Rommel said that it appeared that some Trustees had been more closely involved with the production of this report than others. She added that this was an enormous investment and did not feel that there had been enough scrutiny of all the options. She accordingly moved as an amendment that this report should go back to the staff of the Trust for full assessment of all the options which should include the upgrading of the existing facilities. It should then be presented to the full Trust for a decision. However, she did not receive a seconder.

The Interim Head of Economic Development said that he thought the report was well balanced and he was disappointed that some Trustees sought to criticise its content. He also noted that whilst he thought that a new fit for purpose slaughterhouse and cutting facility was required for the development of value added meat exports, it was important to achieve best value and therefore further work was required to fully assess all options.

Some discussion then took place about the figure of £3 million in Mr Ratter's motion. Some Trustees were in agreement that the motion should just state that sufficient funds be set aside for this project. However, other Trustees felt that a recommendation to Shetland Islands Council without stating a figure would create difficulties for the decision making process. After more discussion, Mr W A Ratter with the consent of his seconder agreed to change the figure in his motion from £3 million to £2.4 million.

The Chairman said that he would like his reservations on this figure to be minuted.

The Project Team ---

The following team is proposed to give a mix of meat processing facility expertise, local building cost knowledge, waste treatment understanding and economic expertise.

Howard Whiteley, Meat Processing Industry Expert

Howard is an expert in the abattoir and red meat processing sectors. He has worked on meat industry projects throughout the UK, including recent studies on small scale abattoirs and meat processing in the Western Isles and Skye. He costed options for Shetland processing facilities in the recent report for SIC. Howard will lead the preparation of abattoir design plans and facility costs.

Stephen Johnston, David Adamson Chartered Surveyors

Stephen has 30 years experience of Quantity Surveyor work in Shetland. His firm has operated in Shetland since 1930 and has been involved in virtually every type of building erected in the islands. Of relevance to the food processing sector he has recently been involved in two fish processing units for HIE and a local distillery. Stephen will work closely with Howard and the waste consultant on costing the abattoir buildings and related facilities.

Simon Johnston, C.E. Projects

Simon is a specialist in design and supply of effluent treatment systems. He has had a career in water and waste management throughout the UK and Ireland including the design of systems for abattoir waste. He now operates his own consultancy business. Simon will provide a specialist input to this study on the waste process and resulting facilities design. This will complement the QC on costing of the overall facility.

Peter Cook, Independent Agricultural Economist

Peter led the previous study in to the future for Shetland livestock numbers and processing options and will carry out the abattoir operating cost calculations for this study. He will also help coordinate the specialist inputs and final report. Peter has carried out a wide range of similar economic option appraisals throughout Scotland and has first hand knowledge of Shetland, including previous studies on the islands livestock sector.

Graham Fraser, SAC Senior Area Adviser, for Shetland

The SAC office at Staneyhill will provide a local base for the consultants.

Peter Cook - CV

Name: Peter William Cook

Home Address: Newton, Aquithie, Kemnay, Inverurie, Aberdeenshire, Scotland, UK
AB51 5NY

Telephone: Home Office: 01467 642802
Mobile: 07774 160246
E.mail: cooknewton@btopenworld.com

Date of Birth: 18 February 1962

Nationality: British

Family Status: Married

Other: Fellow of the Royal Agricultural Societies (FRAgS)

EDUCATION

1984 BSc Agriculture Honours (First Class), University of Aberdeen.

1991 MBA, Cranfield School of Management.

Foreign Languages: Basic French, written and spoken.

POSITIONS HELD

1985-1992 Agricultural Economist. NOSCA and Scottish Agricultural College, Aberdeen.

1992-1995 Senior Business Economist. Scottish Agricultural College, Aberdeen.

1995-2003 Head of Rural Business Unit, Scottish Agricultural College

2003- Independent Agricultural Economist, P & L Cook and Partners

1987- Farmer, part-time basis.

MAJOR PRESENT AND PAST RESPONSIBILITIES

Head of SAC Rural Business Unit providing specialist services to agricultural businesses throughout Scotland, the UK and overseas. Managing a team to provide high quality back-up to general agricultural advisers and in the provision of business management consultancy services for commercial clients. Leading the development of farm management tools and methodologies and training all SAC staff.

Previously Head of Business Management group within the Agricultural and Rural Economics Department, SAC Aberdeen.

Leader of many adhoc consultancy teams including joint Economic/Agronomy Agro Industrial Research Services (AIRS) specialist consultancy team studying industrial crops.

Part of specialist group studying and presenting the impact of CAP reform at the farm level.

Manager of "Advisory Activity" based SEERAD funding to SAC covering Economic Impact Assessment.

Year tutor for third year of Bachelor of Technology Degree in Agricultural Business Management.

Co-ordinator of diploma in Farm Business Organisation and Management.

Member of SAC Marketing and Business Research Services (MBRS) steering group.

Member of team developing new business management degrees in conjunction with University of Aberdeen.

Regular commitment as member of EC "Tempus" team in Poland, Hungary and Czechoslovakia and in consultancy teams throughout East and Central Europe (Lithuania, Latvia, Estonia, Ukraine, Russia, Poland, Czech Republic, Romania). Clients include FAO, World Bank, EU, UK Government, Aid Charities.

Member of Industry Liason group (NFUS, QMS, SAC, SAMW, SEERAD) sharing information on 2004 Mid Term Review of CAP

Member of Grampian Agricultural Affairs Committee.

Member of MLC Experts Panel helping develop MLC Forward Strategy.

Specialist Adviser to the House of Commons Agriculture Committee studying HLCA's.

Specialist Adviser to the House of Commons Scottish Affairs Committee inquiry into "The Future for Scottish Agriculture".

Lectured on and supervised projects and theses on B Technol, RBM and BSc degrees, Dip FBOM Ag Econ MSc, IFMBM MSc, AqaBM MSc, Agric Development MSc, MLE MSc.

Communicating impact of change on farms and how to improve performance at major conferences; Great North Meet, SAC Outlook Conference, Crops Magazine Conference, SNFU Hills and Uplands Conference, Crop Protection in Northern Britain and many others. Also at hundreds of farmer meetings throughout Scotland and elsewhere in the UK.

EXAMPLES OF WORK EXPERIENCE

Consultancy and Contract Research:

1. UK Examples

Large number and range of farm business management consultancies on strategy formulation, management problems, financial analysis, policy change, restructuring, expansion/investment and legal and taxation problems.

Feasibility studies, market research and sourcing finance for new rural business ventures.

Strategic Supply Chain Study for Scottish Food and Drink (Scottish Enterprise)

Farm Waste Biogas and Composting Pilot Facility Economic Assessment (ENVIROS for Scottish Executive)

Impact Assessment of CAP Mid Term Review options for SEERAD

Study on Impact of CAP Reform on Rural Areas of EU (DG Agri, EU Commission)

Competitiveness Study for the UK Cereals Sector (HGCA)

Development of Argyll & Bute Agricultural Strategy (Argyll and Bute Agricultural Forum)

Design of the Successor to the Crofters Commission Cattle Improvement Scheme (SEERAD)

Development Strategy for Inverurie; Agriculture, Food and Supply Trades.

Development Strategy for Banff and Macduff; Agriculture, Food and Supply Trades.

Caithness and Sutherland Farm Business Development Review Programme.

Development of Future Agriculture scenarios for Highlands and Islands Enterprise (HIE)

Assessment of Impact of CAP Mid Term Review on Highland Agriculture

Impact assessment of CAP Mid Term Review on Highland Agriculture for EU DG Agri livestock policy staff and Euromontana

Studies in to the Impact of BSE Livestock Movement Restrictions for Shetland Islands Council, Western Isles and the ANM Group.

British Potato Council UK Knowledge Transfer Workshops

Profitable Farming in Scotland: Developing Benchmarks and Strategies for the Future. Joint study with SAOS.

Oatmill Market Development Study

Hide Tanning Company Market Development Study

Strategy Development for Vegetable Production Group

An Assessment of the Economic Contribution of Alternative Agricultural Enterprises to the Rural Economy of Wales, for the National Assembly for Wales Agricultural Department and the Welsh Development Agency.

Study of Impact of Land Reform for HIE

Strategy Development for Pig Marketing Group

Study of Feasibility of Use of Potato Starch for Biodegradable Packaging

Report on Returning Farm Systems to Profitability, for Scottish Enterprise Grampian

Farm Business Development Review Programme, for Scottish Enterprise Grampian

Study of the Outlook for the Sheep Sector, for Local Enterprise Company

Review of Potential for Renewables, for DEFRA

Study on Integrating Environmental and Business advice, for SEERAD

Establishment of Farm Women Groups

Feasibility Study for Tiree Mart, for Argyll and Islands Enterprise

Development of Guidebook to Establishing a New Enterprise on the Farm

Upland Estate Strategy Studies

Study of the Grampian Enterprise Area Agricultural Sector.

Study of the Impact of BSE on Grampian Agriculture (Grampian Enterprise).

Preparation of Farm Business distance learning material for the Chartered Institute of Bankers.

Preparation of training workbooks for Clydesdale Bank

Moray Floods Impact Assessment.

Fort William Mart relocation feasibility study.

Labour Ring feasibility study.

Feasibility Study and Marketing Development Scheme grant application for the Blackface Lamb Marketing Company.

Agricultural Adviser to Grampian Enterprise Ltd.

Member of MLC group looking at Long Term Strategies for UK Beef Production.

Rural Development Focus Groups for EU Project on Lagging Rural and Coastal Regions.

Study in to Flax Processing Opportunities in West Wales.

Study in to the Future of the Rural Economy of Dumfries and Galloway.

Review of Changes in Grampian Agriculture.

Review of Changes in Moray Agriculture

A Review of the Future Trends in the Production and Marketing of Livestock on the Orkney Isles.

Study of the Impact of the Farming Crisis on Moray.

National Parks Study for SNH.

Scenario Planning for the UK Beef Industry, for MLC

The impact of CAP reform on a vegetable processing company.

The impact of CAP reform on arable farms (Grampian Enterprise).

Bioethanol Production from Wheat. Study for Home-Grown Cereals Authority.

Competitiveness of the UK Cereal Sector. Study for HGCA (ongoing).

Production of "Guide to Farm Diversification" for Grampian Regional Council.

Impact Survey of Objective 5b Rural Enterprise Programme participants in the Highlands and Islands.

Feasibility Studies for Large Scale Livestock Incinerators and New Veterinary Laboratory Facilities.

Study of seasonality of milk supply problems for a large milk wholesaler.

Review of the future of milk production in the Highlands and Islands of Scotland (HIDB).

Appraisal of the effectiveness of support to land based industries by a large regional development organisation (HIDB).

Feasibility study of the market for in vitro beef embryo's (Scottish Beef Developments Ltd).

Research into the sourcing of beef and dairy embryo's (Animal Biotechnology Cambridge).

Caithness livestock numbers and trends (ANM Group Ltd).

Feasibility, market potential and successful FEOGA application for Italian speciality cheese manufacturer (Glassel Speciality Cheeses).

Research into traditional British bread production (Glassel Speciality Cheeses).

Feasibility of investment in the further processing of rape oil for fuel, food and specialist industrial uses in Scotland (Scottish Enterprise).

Review of speciality food companies in Grampian region (Grampian Enterprise).

Study into the potential for industrial cropping on set aside land in Grampian (Grampian Regional Council/Grampian Enterprise Ltd).

2. Overseas Examples

Curriculum, case study and business plan development at Lublin and Warsaw Agricultural Universities.

Development of Agribusiness Management Summer School, sponsored by Polish-American Extension Project and EC, at Pulawy, Poland.

Technical assistance on development of Poland's official farm income survey as part of FAO's TCP for Institute of Agriculture and Food Economics, Warsaw, 1992/93.

Farm Management workshop in conjunction with Brno Agricultural University covering family farming and EU agricultural policy, Czech Republic. 1994.

Creation, management and analysis of Lithuanian Farm Survey for the World Bank, 1994.

Development of technical assistance, project documentation and business planning services for the World Bank programme in Lithuania, 1994/95.

Advisory services and grant applications for UK farmers considering investment in East and Central Europe, 1993 onwards (including Hungary, Czech Republic, Poland, Latvia).

Study of New Zealand agriculture for House of Commons Scottish Affairs Select Committee 1995.

Assisting development of farmer groups, FAPA project, Poland (Siedlce, Biala Podlaska) 1996.

Development of farmer potato marketing groups, FAPA project, Poland (Koszalin, Slupsk, Gdansk) 1997.

Training of trainers for Russian extension service project (ARIS), (Timiryasev Academy, Moscow) 1997.

Advisory service business development strategy, EU Phare project, Latvia 1997/1998.

UK DFID review of rural development activities in the three Baltic States (1998).

Intensive Agriculture with Healthy Food production, FAPA Project, Poland (1998).

Polish Extension Service Training Project, FAPA, Poland (1999).

UK DFID Farm and Agri-Business Support Services project, training, extension and consultancy service development, Ukraine (1999, 2000, 2001).

Romania EU Twinning Project on Policy Formulation (RO 2000/IB/BAG/01-2). Inputs on Ministry of Agriculture staff training needs, barriers to development of farm businesses, review of extension and research system. (2001/02).

Poland EU Twinning Project on National Agricultural Advisory System (PL/IB/2001/AG/02). (2002/03).

World Bank Agricultural Services Support Programme, Agricultural Knowledge and Information Systems project, Romania (2002)

Education:

Managed and expanded postgraduate Dip FBOM course into Europe. Secured substantial external funding.

Bachelor of Technology degree in Agricultural Business Management year 3 tutor.

Lecturing to wide range of courses on business analysis, budgeting and control, corporate accounts and finance, business strategy, personal development and managerial skills. Strong emphasis on use of real case studies and project work.

Very wide range of short course for farmers, bankers, the food sector and agricultural trades. Covering all aspects of financial management, marketing, staff motivation and legislation.

Major role in promotion and information dissemination to the agriculture industry. Several hundred presentations for farmers and related organisations on agricultural outlook, CAP, BSE, FMD, Eastern Europe, business management topics, group marketing/buying.

Media Work:

Television appearances: "Landward" BBC Scotland on CAP reform, 1993. Czech TV 1994. Grampian TV Animal Welfare Debate 1995, BBC Reporting Scotland 1996, "Landward" BBC Scotland 1996, "Landward" BBC Scotland 1997, BBC Scottish Lobby 1998, BBC Landward Special on Eastern Europe 1998, BBC Landward 2000 on alternative farm strategies, BBC Landward 2001 on FMD crisis, BBC Reporting Scotland on Island Lamb crisis 2001, Grampian TV 2001 on FMD, BBC Landward 2003 on East European EU Accession.

Radio Interviews on Set-Aside, CAP Reform, Oilseed Rape Processing, Biodiesel, Young Farmers issues, Czech Agriculture, Lithuanian agriculture, HLCAs, Summer/Winter time changes, Consumer trends, Impact of Subsidy Removal, BSE, Overseas Work, Land Prices, Diversification, FMD crisis, challenge of EU expansion.

Stephen Johnston - CV

Name:	Stephen John Johnston
Firm:	David Adamson & Partners
Profession:	Chartered Surveyor
Date of Birth:	20 th July 1952
Current Position Held:	Director
Education:	1964 - 1970 Anderson High School, Lerwick 1970 - 1974 Heriot Watt University
Qualifications:	B Sc, FRICS
Background/Relevant Experience:	
1990 – Present	David Adamson & Partners - Partner
1976 – 1990	David Adamson & Partners - Surveyor

1974 - 1976

Zetland County Council - Surveyor

Generally

Based in Lerwick, Stephen has over 30 years experience in quantity surveying and valuation work. Stephen has experience in the full spectrum of quantity surveying services and is fully conversant with all major contract forms and has a thorough practical knowledge and understanding of all aspects of construction. Stephen has particular experience in Island work, having managed and co-ordinated all of the work on Shetland projects, usually with pre-contract and often post-contract input from outwith Shetland.

Relevant Experience

The following sample of projects where Stephen was the project QS illustrates his relevant experience:-

Anderson High School replacement feasibility study	£28M
BP Sullom Voe terminal feasibility study for renewal of offices, workshops and ancillary accommodation	£15.9M
New Distillery for Blackwoods	£2.80M
6 Care centres, Shetland	£9M
Primary and Junior High School, Whalsay	£4.20M
Ferry Terminal Building for Lerwick Port Authority	£1.7M
Office and Welfare facilities extension to factory for Shetland Catch	£1.60M
Business Innovation Centre	£0.50M
Special Needs House, Lerwick	£0.35M
Fish processing units at Scalloway for Shetland Enterprise	£0.30M

Stephen has also been involved at various stages in all of Shetland Recreational Trust's Leisure Centre developments in Shetland, and provided the Quantity Surveying input to the feasibility Study for their Squash Courts development.

Approved to Receive Commission:	Yes
Approved to Sign Letters:	Yes

Simon Johnston CV and CE Projects Description

Simon Johnston
Johnsons Wood Farm,
Old Springs,
Market Drayton.
Shropshire.
TF9 2PG

Contact details
TEL 0044 -(0)1630653771
FAX 0044 -(0)1630657757

Mobile 0850 363131

E- mail sjohnston@btinternet.co.uk

Born 28-9-50 Newark Notts.

Secondary Education

South Kesteven Grammar School. Lincoln.

Qualifications:

Eight O Levels

Played Football and Rugby for the school.

1967 – 1968 One year's prior college practical experience in Agriculture on dairy farm, duties included milking and feeding dairy herd and took responsibility for all machinery maintenance.

1968 to 1969 Course in general agriculture at Kesteven Agricultural College, Caythorpe, and Lines - the Agricultural faculty of Loughborough University.

Qualifications 1970: National Certificate of Agriculture with Distinction
City and Guilds Certificate in Machinery Maintenance.

Career:

Joined Farrow Irrigation Ltd of Spalding. Lincolnshire., part of the Tate and Lyle Group, as trainee technical sales representative.

1972 Took over the area of Scotland as sales representative for water irrigation and slurry handling products.

Introduced the Silsoe designed slurry separator / dewaterer to Agriculture.

1973 Moved to the West area of England selling irrigation and slurry systems.

1975 Became Field Sales Manager with responsibility for four Representatives. Organisation of Shows and open days. Preparation of Sales Budgets. New product development and procurement. Responsible for the design of over thirty tertiary treatment plants for Dairy effluent in Eire using irrigation. Took a major part in Farrow effluent engineering designing and selling High rate filtration systems and starch recovery. Developed the tertiary treatment of abattoir and creamery waste using spray irrigation, especially in Eire.

1981 Farrow and Wright Rain Ltd amalgamated and I became the Senior Technical representative responsible for slurry equipment sales and special products. Introduced the concept of recirculation treatment for treatment of landfill tip leachate. Introduced and planned the sales launch and installation of the Centre Pivot Irrigator to British Agriculture. Developed the concept of "Low Rate Irrigation" for farm effluent responsible for the packaged pump set concept.

Designed Aeration systems for smell treatment and B.O.D reduction. Designed the larger Sludge pumping systems for the company. Introduced Dust damping systems using irrigation equipment for quarries.

1988 Joined F B Ltd of Cranbrook, Kent as sales Manager, Selling Slurry and sludge Handling equipment to agriculture and industry. Promoted after six months to Sales Director with responsibility for all sales activities. Responsible for the introduction to the UK of the Sudtec slurry separator from Germany and the Beham slurry pump. Responsible for the development of these machines to suit British farms. Responsible for export marketing.

1993-to Date

Joined the Carrier group as Sales Director of Carrier Pollution Control Ltd. Started this new company from the beginning to promote Carrier Manufactured products into agriculture and industry. Responsibilities - All marketing functions, budgets, product specification, System design, installation supervision, contract negotiation. Designed a range of pollution control products manufactured in house and secured a product portfolio from major international manufacturers to compliment this. Set up UK distributorship network. Designed and sold complete effluent treatment systems into various industrial and municipal markets. Largest project £1.4 million. Secured some major export contracts and negotiated sales of Carrier pollution products into fifteen new export markets including China. Management of projects from design through procurement to installation and commissioning.

2004 - Started a New company C.E.Projects to specialize in design and supply of specialist systems for effluent treatment

Languages

Some French and presently learning Italian at night school.

Interests and Hobbies,

DIY, Restoration of Antique Machinery.

Capabilities

Computer literate

Cash flow and budget preparations

Man management

Project management

System design and engineering

CE Projects Ltd

Water and Effluent pumping, Treatment for industry and agriculture

**Johnsons Wood Farm • Old Springs • Market Drayton • Shropshire • TF9
2PG Tel 01630 653771 • Fax 01630 657757**

C.E. Projects Ltd

A small consultancy/ design and build company.

Provision of treatment solutions for industry and agriculture

Worldwide consultancy on separation technologies and aeration for Alvan Blanch Ltd

Present contracts include:

The design and supply of a reedbed for agricultural wastewaters in Cheshire
Contract value £30,000

Design and installation of complete slurry containment and flush system for Waitrose Farms -
Contract value £250,000

Design and install effluent treatment plant for new cattle market At Shrewsbury for
Hurstwood Group Contract value £40,000

Along with a number of other projects of a similar but smaller nature.

We consider that C.E. Projects are both competent and capable of design of projects of value
to £750,000 - £1,000,000

The writer has extensive experience of this type of project and the design of conventional
activated sludge plants and hi- rate filtration systems.

Full insurance for product liability and public liability is carried .

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Howard Whiteley

Personal Profile

Since 1976 Howard Whiteley has worked as a Company Director, sales manager, project manager, designer and mechanical handling specialist in various engineering and construction fields - combining both a management role with sales, design and technical skills.

Specialising in the design and construction of high throughput process systems for the food, chemical and textile industries and working directly or indirectly for clients including ASDA, TESCO, Sainsburys, Morrisons, Waitrose, ICI/Zeneca, Philips Domestic Appliances, British Steel, BASF, Holset and the M.O.D.

The projects have involved visit to sites and/or exhibitions in Western and Eastern Europe, South Africa, the Middle East, Iceland, New Zealand and North America.

Responsible in a Team Leader role for the design, implementation and commissioning of many refurbished and new plants and associated facilities in the UK and worldwide. Also having considerable experience in the design and implementation of material handling systems in the textile, chemical and other manufacturing industries. Work has included management of a number of SMEs and also project management and site management of contractors and commissioning new plant including the preparation of operating and safety manuals and also sales and marketing literature for my own companies and also client's companies.

Frequently required to make presentations to clients and regulatory authorities and even representing a New Zealand Research Institute (MIRINZ) at Seminars. Regularly involved in negotiations with clients, and contractors in order to bring about cost effective solutions. The scope of work typically involves designing and selling a concept before the preparation of CAD drawings, the writing of specifications, estimates of costs including delivery and installation costs, labour requirements and if necessary, feasibility studies and process descriptions.

As a Sales Director also being responsible for marketing and representing Companies at Exhibitions in the UK and overseas.

Employment History

1999 to Present

In 1999 formed a new company, Prime Projects International Ltd, specialising in building and process design, project management, training and giving business advice to clients.

The first project was a twelve-month contract to be solely responsible for the design and project management of a new processing factory for Ballymena Meats. Typically the brief included overall responsibility for all budgets, the supervision of the construction of the building, awareness of CDM and Health and Safety issues. Liaison with regulatory bodies and structural engineers. Also sourcing and coordination of all site contractors supplying electrical and mechanical services, specialist finishes, refrigeration, ventilation and effluent treatment. The design incorporated new techniques and equipment to achieve outstanding product quality with very efficient manning levels.

The project was delivered on time and under budget. Subsequently, the contract was extended to include a short period as plant manager, some training initiatives and also some marketing work including designing a new Company sales brochure.

Other projects undertaken by Prime Projects include

Development of new drive-thru restaurant for KFC

Specialist adviser to a KPMG team carrying out a feasibility study for new processing factory for Integra of Romania.

Assessment and report on 10 poultry and red meat factories in Poland for Smithfield Foods of Virginia, USA.

Assessment of existing door manufacturing unit operated by The McDonald Group followed by recommendations and costed proposals for improvement in product handling methods.

Specialist Adviser to a Scottish Agricultural College team reviewing facilities in the Western Isles of Scotland and making recommendations as to their future viability.

Specialist technical adviser on a major plant upgrade for Woodheads/Morrisons Supermarkets.

Specialist adviser to Grampian Country Food Group on various projects including use of robotics, acquisitions and reconstruction of a major factory following a fire.

Concept designs for advanced cooked meat handling systems at Delico and Malton Bacon Factory.

Acted as a mechanical handling advisor to WS Atkins Consultants Ltd for the design and implementation of a freezer facility at Mecca, Saudi Arabia

Various design study projects for clients in Langxiang, China - India (with Food Processing Equipment Company of Delhi) - for Synko-Pol of Poland.

Installation of equipment for Palmidor France.

Building and Layout proposals for new process lines for Iowa Lamb Company of South Dakota and Agri Processors USA.

Design and implementation of handling systems for Brandon's Turkeys, Linden Foods, Hall and Roberts and Medina Halal and numerous other smaller UK operators

1996 Instigated the creation of a new Company - Bitterling Crowther Ltd which was formed by the coming together of the UK's two largest and longest established food engineering Companies - Brook & Crowther and E.A. Bitterling. As a Director of Bitterling Crowther, Howard Whiteley was responsible for sales, marketing, concept design, project management and the management of one of the Company's three manufacturing sites.

1992 Due to continued expansion of the Company, Howard Whiteley invited a management buy-in so that he could concentrate on sales and technical aspects of the operation. This re-organisation was completed under the supervision of Accountants - Price Waterhouse and Howard Whiteley resumed his role as Sales and Technical Director.

1988 Appointed as Managing Director of Brook & Crowther Ltd with overall responsibility for all activities of the company comprising 30 staff and engineers.

1981 Appointed as a Director of Brook & Crowther Ltd with responsibility for sales, contract negotiation, project management and concept design.

1976 Joined the UK engineering company of Brook & Crowther Ltd as a designer/draughtsman to undertake detail drawing work in the field of mechanical handling, structural steelwork design and meat processing equipment. Also spent time training in meat processing factories studying work practices and material flows.

**Education &
Professional
Qualifications**

1970-76 Denstone College, Staffordshire
9 'O' Levels
2 'A' Levels

Computer literate including Autocad design
CIEH Advanced Food Hygiene

Personal Details

Nationality: English

Date of Birth: 13/5/1958

Marital status: Married - no children

Holder of UK driving licence and Private Pilots licence

Interests

Taking an active part in the Round Table Association activities and Round Table Charities.

Many sports including squash and golf.

Flying light aircraft.

Entertaining, Walking and Travel

**STUDY INTO THE FUTURE FOR LIVESTOCK PRODUCTION
IN SHETLAND**

**A Dual Investigation into Future Livestock Numbers and Options for
Slaughtering and Processing.**

A Report for Shetland Islands Council

CONFIDENTIAL DRAFT

July 2005

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A. INTRODUCTION

The Shetland agricultural industry is at a crossroad. The decoupling of CAP support means that subsidy income is no longer related to livestock numbers, the potential reactions of mainland Scotland buyers of store stock are unclear and State Aid rules requiring a change in transport subsidies make the costs of live exports to traditional markets uncertain. At the same time there is a strong perception that the development of diverse consumer markets have created an opportunity for Shetland lamb. However, Shetlands slaughtering and processing capacity is small and fragile.

This study aims to

- establish credible information on future livestock numbers in Shetland
- project potential export and slaughter numbers in Shetland
- provide simply costed options for future Shetland slaughter and processing facilities.

This draft report presents the consultancy teams analysis to date, as a basis for discussion and refinement with the client and stakeholders.

B. SUMMARY

LIVESTOCK PROJECTIONS

Methodology

Simply stated the methodology is based on an analysis of historic trends in Shetland sheep and cattle numbers to understand what has driven change in the past. A survey of Shetland producers and representative organisations, combined with a brief look at other studies, was then used to develop a number of scenarios for the future of total numbers, finished stock numbers and exports. Inevitably these forecasts are an “informed view”. However, the aim is to present a range for future livestock numbers which gives some confidence in the maximum and minimum levels and helps in making sensible investment decisions.

Historic Trends

Data from 1971 to 2004 is presented in the report. Key points are as follows.

Sheep key points:

- Sheep numbers increased steadily in Shetland through the 1980's and 1990's
- Some major factors in this rise were the strong store trade resulting from the sheep Variable Premium scheme in the late 1970's and 80's, then the growth of the successor Sheep Annual Premium and the development of continental export markets for light lambs.
- The development of Scottish sheep numbers has been much flatter and peaked earlier - in 1992 - than in Shetland where ewe numbers peaked in 1999. In Scotland as a whole the 1992 MacSharry CAP reforms probably stimulated a greater shift to beef cows away from sheep.
- Despite lamb and cast ewe price problems, the attraction of SAP income has meant that Shetland ewe numbers did not decline until the introduction of environmental destocking schemes, Foot and Mouth related culls and the current scrapie cull. In contrast the total Scottish flock has been declining since about 1992, and has fallen more sharply, accelerated by Foot and Mouth losses which have not been replaced. The total Scottish flock is now 14% below its 1987 level while the Shetland flock is only 2% lower.
- The recent reductions in Shetland, however, are sharp and look permanent as replacement stock, included in the “other breeding sheep” total in table 1, have not increased.
- Over time the “lambling percentage” has been remarkably constant, though there is some indication of improvement from the 1980's. This is not what would be expected from the increase in ewe numbers in the 1990's if this consisted of hill Shetland ewes to collect SAP.
- The number of holdings carrying breeding ewes has declined in Shetland and Scotland at broadly similar rates, but perhaps slightly faster in Shetland. The decline in numbers of holdings with sheep in Shetland is much less than the decline in number of cattle holdings.
- The key points for forecasting Shetland sheep numbers may be that ewe numbers have been more resilient in Shetland due to the greater importance of SAP, due to

the lack of profitable alternatives and due to the crofting/ part-time structure. However, recent reductions look permanent, even where the reduction is not mandatory as part of a scheme. Also, overall lambing percentages are fairly constant – this suggests it might take a big change in numbers to alter individual ewe performance.

- The average annual decline in ewe numbers 1987 to 2004 is **0.1%**. If we take the period of more rapid change from 1998 to 2004 (but flattening the one-off FMD related cull in 2001 to the trend 2%) as indicative of the long term post-decoupling trend the annual average decline in ewe numbers is **1.75%**.

Cattle key points:

- Over the 30 years analysed Shetland beef cattle numbers are surprisingly static. Numbers were a bit higher in the 1970's, but since the late 70's have fluctuated around 2,000 breeding cows and 6,000 cattle in total.
- What has changed dramatically is the number of holdings carrying cattle in Shetland. This has declined by almost 50% since the late 1980's – much faster than in Scotland as a whole. Shetland may have roughly the same number of cattle as in the past, but they are now on less than 200 units.
- The dairy herd is also fairly static at between 650 and 700 cows over the last 25 years, though the number of herds has also declined dramatically.
- The "Male Cattle 1 - 2 Years" numbers have increased since the early 1990's perhaps suggesting a move to more finishing or at least toward keeping cattle longer to claim the Beef Special Premium, rather than selling as weaned calves.
- Over the 1987 to 2004 period Shetland beef cow numbers have decreased by almost 8% (0.35% per annum), while Scottish cow numbers have increased by 17% (approximately 1% per annum). This suggests that the recent high rates of subsidy on beef cows has increased Scottish numbers, but only managed to maintain Shetland numbers. There may be a natural limit on Shetland numbers anyway, related to the quantity of suitable land, facilities and labour available for forage production and for profitably wintering cattle.
- It should be noted that while Scottish numbers have increased since 1987, they peaked in 1998 and then declined relatively sharply as producers made use of the Suckler Cow Premium heifer rule. This decline did not happen to the same extent in Shetland.
- Key points for forecasting future cattle numbers in Shetland are the long term "natural limit" or stability in breeding cow numbers (and seeming lack of response to subsidy changes), the concentration on to fewer units (which in itself puts a limit on expansion) and the slight increase in cattle rearing (which combined with the concentration of production on to fewer "professional" beef units, may help increase finishing).

Livestock Projections; Survey View and Results of Previous Studies

The overall 5 to 10 year picture suggested by the survey was as follows.

- Hill ewes decline steadily. One producer suggested a 50% fall over 10 years, another 30%.

- In-bye cross ewe numbers may decline a bit or stay static in the long term. There is a feeling that there will be a dip in the next few years (partly due to the Scrapie Scheme) and then a bit of restocking thereafter. The general market price for lamb will be critical in setting cross ewe numbers in the long term.
- Hill lambing % will improve in some hills (by 20% to 30% max.) and condition of lambs will also improve, but this will depend on the location.
- Beef cow numbers may remain static overall, with a decline in the larger units and a small rise in small herds due to environmental schemes. There is a questionmark over the stage at which calves (especially steers) will be sold due to the uncertainty over buyers reactions to the end of the BSP scheme.

This picture is backed up by the findings of previous studies on the impact of subsidy decoupling on livestock numbers in the Highlands and Islands.

Livestock Projections; Sheep Scenarios

A simple model of Shetland sheep production has been used as the basis for all future scenarios;

Using 2003 numbers, we can very roughly model Shetland sheep production as follows.

2003 census numbers		Lambing %	Lambs
161,000 ewes	Shetland ewes 107,000	80%	85,600
	Cross ewes 54,000	125%	67,500
			153,100

The total lambs recorded in the census was 151,797 which is fairly close to our model estimate.

Model of destination of 2003 lamb crop:

Approx. Census No.	Exported lambs (88% of total sheep exports)	Slaughtered (assume all recorded slaughterings are lambs)	Retained for Breeding (usually around 22%)	Homekill estimate	Deaths (approx. 5%) or held over to following year as feeding hoggs
152,000	85,000	4,580	35,000	20,000	7,420

Based on the factors which have shaped historic sheep numbers and on what we believe will influence future numbers, forecasts of sheep numbers have been prepared for three scenarios.

Scenario 1. "Optimistic Future".

This assumes that the 1999 to 2004 reductions in ewe numbers have taken out a lot of the potential post-decoupling reductions and that the store trade stays strong given a decline in sheep (and cattle) numbers Europe wide. The decline in ewe numbers over the next 10 years is taken as the 1987 to 2004 average of – 0.1% per annum, a fall over 10 years of only 1% (but with a sharper fall in the next 5 years and a recovery thereafter).

Scenario 2. "Continuation of Recent Trend".

This view of the future assumes that the scale of flock reduction seen over the 1999 to 2004 period is the long term trend, driven by decoupling and static prices. Annual rate of ewe decline is 1.75%, 16.2% over 10 years.

Scenario 3. "Pessimistic Future".

This scenario assumes store lamb prices decline as transport costs rise and mainland Scottish flocks expand. Fertiliser and other input costs rise sharply, forcing some extensification of production. Over 10 years hill ewe numbers decline 50%, in-bye ewes 30%.

Projections for the 3 scenarios are as follows.

	Ewes	Lambs	Finished (if no SIC subsidy)	Finished (if SIC subsidy continues)
Scenario 1 - 5 years	145,000	145,650	7,282	14,565
Scenario 1 - 10 years	159,000	163,150	8,158	16,315
Scenario 2 - 5 years	145,000	145,650	7,282	21,848
Scenario 2 - 10 years	135,000	142,500	14,250	28,500
Scenario 3 - 5 years	126,000	125,500	12,550	25,100
Scenario 3 - 10 years	91,000	104,300	20,860	31,290

The above suggests, in 10 years time, a minimum finished lamb total of around 8,000 head and a maximum of approximately 31,000.

Minimum and maximum future export lamb totals have been derived as follows.

	Finished lambs	Total lambs	Exported	Potential maximum slaughtered	Retained for breeding	Homekill	Deaths, carryover.
Min finished lambs scenario							
5 years	7,282	145,650	78,968	7,282	31,900	20,000?	7,500

10 years	8,158	163,150	91,492	8,158	35,000	20,000?	8,500
Max finished lambs scenario							
5 years	25,100	125,500	46,400	25,100	27,700	20,000?	6,300
10 years	31,290	104,300	27,810	31,290	20,000	20,000?	5,200

The above suggests a big range in potential export lamb numbers in 10 years time, with a minimum of around 28,000 (a bit less than a third of current exports) and a maximum of around 91,000 (close to current levels). The low export forecast assumes a very high lamb kill (31,000 through abattoirs) in Shetland in comparison to historic levels (previous maximum sheep kill was 17,117 in 1985).

Livestock Projections; Cattle Scenarios

Cattle numbers have been remarkably static over the last 30 years. Many factors suggest this will remain so. There is a limited area of good land, a concentration of cattle into less than 200 units (and a skewed distribution within that number with a small number of producers carrying a large proportion of the cattle) and a very sharp reduction in cropping over the last 15 years. To increase cow numbers in a post decoupling world would need a very large financial incentive. Environmental schemes are providing this incentive, but only for small numbers of cows on units where few exist at the moment. In this environment the future of cow numbers (and finishing numbers) is closely related to the store cattle price.

Scenario 1. Strong store trade/ Environmental support for cows.

This assumes mainland buyers continue to use their SFP to pay high prices for stores (especially steers). Also while the LFASS changes, the new RDR continues to support cattle in other ways. "Professional" beef producers cut cow numbers slightly, but this is largely balanced by new cows under environmental schemes.

Scenario 2. Decline in store trade/ LFASS change.

This scenario assumes that eventually the loss of the BSP and other headage payments works through to store prices, hitting Shetland producers sharply. Also the LFASS cattle incentive disappears. The result is a 35% fall in cow numbers akin to that forecast in the HIE study on impact of CAP decoupling. There is incentive to finish more low price weaned calves.

Cow number, finishing and export projections are as follows.

Scenario 1. Strong Store Trade/ Environmental Support for Cows			
Forecast follows current pattern of finishing and exports.			
	5 years	10 years	
Beef cow numbers forecast	2,000	2,000	
Calves born			
%	90%	90%	
Number	1,800	1,800	
Retained for breeding	300	300	
Deaths (5%)	90	90	

Finished (potentially available for slaughter)		200 (11%)	200 (11%)
Export calves		1,210	1,210
Cull cow/ bull exports		200	200
Total cattle exports		1,410	1,410

Scenario 2. Decline in Store Trade/ LFASS cattle incentive lost

Greater incentive to finish calves, but less cows.

	5 years	10 years
Beef cow numbers forecast	1,780	1,308
Calves born		
%	90%	92%
Number	1,602	1,203
Retained for breeding	240	180
Deaths (5%)	80	60
Finished (potentially available for slaughter)	200 (13%)	400 (33%)
Export calves	1,082	563
Cull cow/ bull exports	160	120
Total cattle exports	1,242	683

ABATTOIR AND PROCESSING OPTIONS

The two main slaughter and processing facilities in Shetland at Laxfirth and Boddam were inspected and reviewed as part of this study. Discussions were held with both SLMG – the Laxfirth operator, and the Smith family – owners of the Boddam abattoir.

This report concentrates on the factors which limit the profitability of the facilities as meat processing sites, and provides indicative costs for upgrading each facility to tackle these issues. In addition an indicative cost has been obtained for a new facility. Sketch plans for the upgrades and the new plant are presented in the Appendices.

Laxfirth

A very good condition, well run facility. Key problem areas were as follows.

1. Inadequate lairage space for livestock.
2. Limited chill capacity for carcasses.
3. Limited meat cutting facilities at the factory.
4. Inability to slaughter other species such as cattle or pigs

5. Seasonality effects on a single species factory.
6. Tendency of farmers to ship animals to the mainland live.
7. Lack of a consistent higher value market and brand identity.

In the report each of these areas is described in detail and solutions costed. Total costs for tackling the facility issues is estimated at £229,000.

Boddam

Fairly primitive in terms of structure, but clean and in reasonably good order. Key areas limiting profitability assessed as follows.

1. Inadequate lairage space for livestock.
2. Limited chill capacity for carcasses.
3. Limited meat cutting facilities at the factory.
4. Inability to slaughter higher volumes of sheep
5. Lack of a full EU Slaughtering licence

Total estimated cost for fully tackling the facility issues listed above, including the Smiths own estimate for Scalloway cutting facilities refurbishment, is £376,500.

New Abattoir Option

An indicative costing and plan has been provided for a new facility to handle 20,000 sheep, 1,000 cattle and 1,000 pigs per annum.

To build a facility to meet EU standards on this scale is estimated at £970,000.

This price would include:

A three species slaughterhall including equipment for processing cattle, sheep and pigs.

Lairage for pigs, cattle and 250 sheep

A carcass chill for beef and a separate carcass chill for 400 lambs

Building works and utilities within the building

Offices and amenities

A septic tank and a simple lorry wash

Refrigeration and insulation including doors.

Add £26,000.00 to equip the new cutting facilities to a reasonable level.

A slight allowance has been added to cover any increased costs that may be incurred through the remote location of the Shetland Isles.

This price would not include:

- Land purchase and legals generally.
- Supplies of utilities and telecoms to the site
- Any allowances for poor site conditions
- Office equipment and consumables
- A perimeter fence and concrete yards
- An effluent treatment plant.
- A forklift truck
- Architects, consultants and engineers fees.
- Planning and building fees.
- Bank charges and contingencies

Alternative Options

The pro's and con's of a number of other processing options have been assessed.

These include "Do Nothing" (favoured by quite a few of those we interviewed, forces co-operation between the two existing abattoirs, ensures the businesses involved have to prove they have a market and can grow before capital funds are committed), "Mobile Abattoir" (seen as a non runner due to distance from mainland if Highland based, provides only slaughter line while the deficit is actually in chill and cutting facilities, does not allow creation of 52 week business), "Process on Mainland" (which saves capital costs, uses existing expertise, but loses control of product selection and client liaison and still means shipping live animals at high cost/weight loss) and "Shared Cutting Facility" (if between the two abattoirs, with a little modification, there is enough slaughter capacity for medium term and the problem is storage and cutting facilities then why not create a plant which the two current operators can share? – has obvious conflict and operational issues, but saves capital and makes best use of existing resources?).

C. LIVESTOCK PROJECTIONS

C1. Introduction

The following analysis aims to present scenarios for total sheep and cattle numbers 5 to 10 years from now. In addition export and slaughter numbers are projected.

The methodology is roughly as follows;

- The starting point for the forecasts is an analysis of historic trends to understand what has been driving livestock changes in the past. SEERAD data for Shetland for the period 1987 to 2004 has been specifically collated for this study. This 19 year time series provides data which is comparable in that it has all been collected and presented on a uniform basis. In addition data pre 1987 running back as far as 1971 has been extracted from “Shetland in Statistics” as produced by Shetland Islands Council. This data has been collated on a slightly different basis to that in the 1987 to 2004 time series, but still helps to show the long term trend. The trend results are used to provide a simple projection of future livestock numbers. These are then adjusted in a number of scenarios (see below) to reflect new factors which could have an impact on cattle and sheep numbers.
- Results of a survey of Shetland producers and representative organisations are used to provide a view of the factors which may drive future changes. The results of previous studies on the impact of CAP reform on livestock numbers in the Highlands and Islands are also used to inform the future projections.
- Scenarios for the future of Shetland livestock numbers are then derived by combining historic trends and an interpretation of the impact of new drivers of change. The projections from these different scenarios provide a range for potential future livestock numbers.
- Within these projections of total livestock numbers, slaughter and export estimates are based on an analysis of finishing economics.
- Inevitably these forecasts are an “informed view”. However, the aim is to present a range for future livestock numbers which gives some confidence in the maximum and minimum levels and helps in making sensible investment decisions.

C2. Historic Trends

C 2.1 Trends in Sheep Numbers

The long term trends in sheep numbers in Shetland are presented in Table 1 (1987 to 2004) and Table 2 (1971 to 1988) below. These should be compared to the Scottish 1987 to 2004 trend in Table 3.

Table 1. Shetland Breeding Sheep and Lamb Numbers 1987 to 2004

<i>Year</i>	<i>Ewes</i>	<i>% Change on previous year</i>	<i>Other Breeding Sheep</i>	<i>Lambs</i>	<i>Lambs as % of Ewes</i>
2004	160,838	-0.5%	38,325	153,750	96%
2003	161,667	-2%	37,447	151,797	94%
2002	164,464	-7%	36,331	154,576	94%
2001	176,863	-2%	38,617	167,475	95%
2000	180,889	-4%	39,151	169,944	94%
1999	188,552	0%	44,392	177,203	94%
1998	188,334	+1%	43,596	182,561	97%
1997	186,817	+3%	41,906	178,878	96%
1996	181,334	0%	37,341	169,729	94%
1995	181,701	+1%	36,880	167,711	92%
1994	179,980	+2%	36,468	166,600	92%
1993	176,058	-2%	34,171	161,743	92%
1992	178,890	+2%	35,139	164,248	92%
1991	175,453	+3%	35,177	164,691	94%
1990	169,611	0%	34,230	157,854	93%
1989	169,726	-0.5%	33,293	158,817	94%
1988	170,413	+4%	31,857	144,417	85%
1987	163,775		30,264	140,134	86%

Source: SEERAD Census

Table 2. Shetland Sheep Numbers 1971 to 1988

<i>Year</i>	<i>Total Sheep</i>	<i>Ewes & Gimmers</i>
1971	264,779	
1974	225,357	
1975	234,108	
1976	284,585	
1977	237,130	
1978	277,775	
1979	274,415	
1980	286,854	
1981	297,558	
1982	298,583	
1983	305,414	
1984	311,280	
1985	314,533	159,173
1986	329,912	162,350
1987	337,155	180,164
1988	352,054	195,291

Source: "Shetland in Statistics"

Table 3. Scottish Breeding Sheep and Lamb Numbers 1987 to 2004

<i>Year</i>	<i>Ewes</i>	<i>% Change on previous year</i>	<i>Other Breeding Sheep</i>	<i>Lambs</i>	<i>Lambs as % of Ewes</i>
2004	3,209,671	0%	809,606	3,850,829	1.20
2003	3,207,675	-4%	785,538	3,862,147	1.20
2002	3,221,700	-2%	795,366	3,852,153	1.20
2001	3,277,170	-12%	749,214	3,881,291	1.18
2000	3,714,674	-4%	819,321	4,450,410	1.20
1999	3,877,886	0%	885,530	4,736,979	1.22
1998	3,876,744	+2%	906,773	4,823,066	1.24
1997	3,810,346	+0.5%	856,747	4,701,342	1.23
1996	3,791,634	-2%	821,599	4,573,967	1.21
1995	3,872,317	-2%	821,113	4,632,097	1.20
1994	3,943,515	-1%	843,076	4,699,466	1.19
1993	3,991,312	-0.5%	812,096	4,832,688	1.21
1992	4,013,701	+0.5%	809,551	4,896,850	1.22
1991	3,993,967	+1%	845,550	4,921,616	1.23
1990	3,958,123	+2%	851,371	4,915,461	1.24
1989	3,894,369	+2%	849,319	4,728,572	1.21
1988	3,829,133	+3%	832,107	4,592,040	1.20
1987	3,719,269		795,572	4,372,842	1.18

Source: SEERAD Census

The trend in the number of holdings carrying sheep in both Shetland and Scotland is presented in Table 4 below.

Table 4. Trend in Number of Ewe Holdings in Shetland and Scotland, Selected Years 1987 to 2004.

Year	No. of Shetland Holdings with Ewes	% of 1987	No. of Scottish Holdings with Ewes	% of 1987
2004	1,341	69%	14,389	71%
1997	1,604	82%	17,753	87%
1992	1,847	95%	20,051	99%
1987	1,948	100%	20,327	100%

Key Points:

- Sheep numbers increased steadily in Shetland through the 1980's and 1990's
- Some major factors in this rise were the strong store trade resulting from the sheep Variable Premium scheme in the late 1970's and 80's, then the growth of the successor Sheep Annual Premium and the development of continental export markets for light lambs.
- The development of Scottish sheep numbers has been much flatter and peaked earlier - in 1992 - than in Shetland where ewe numbers peaked in 1999. In Scotland as a whole the 1992 MacSharry CAP reforms probably stimulated a greater shift to beef cows away from sheep.

- Despite lamb and cast ewe price problems, the attraction of SAP income has meant that Shetland ewe numbers did not decline until the introduction of environmental destocking schemes, Foot and Mouth related culls and the current scrapie cull. In contrast the total Scottish flock has been declining since about 1992, and has fallen more sharply, accelerated by Foot and Mouth losses which have not been replaced. The total Scottish flock is now 14% below its 1987 level while the Shetland flock is only 2% lower.
- The recent reductions in Shetland, however, are sharp and look permanent as replacement stock, included in the “other breeding sheep” total in table 1, have not increased.
- Over time the “lambing percentage” has been remarkably constant, though there is some indication of improvement from the 1980’s. This is not what would be expected from the increase in ewe numbers in the 1990’s if this consisted of hill Shetland ewes to collect SAP.
- The number of holdings carrying breeding ewes has declined in Shetland and Scotland at broadly similar rates, but perhaps slightly faster in Shetland. The decline in numbers of holdings with sheep in Shetland is much less than the decline in number of cattle holdings.
- The key points for forecasting Shetland sheep numbers may be that ewe numbers have been more resilient in Shetland due to the greater importance of SAP, due to the lack of profitable alternatives and due to the crofting/ part-time structure. However, recent reductions look permanent, even where the reduction is not mandatory as part of a scheme. Also, overall lambing percentages are fairly constant – this suggests it might take a big change in numbers to alter individual ewe performance.
- The average annual decline in ewe numbers 1987 to 2004 is **0.1%**. If we take the period of more rapid change from 1998 to 2004 (but flattening the one-off FMD related cull in 2001 to the trend 2%) as indicative of the long term post-decoupling trend the annual average decline in ewe numbers is **1.75%**.

C 2.2. Trends in Cattle Numbers

The trend in Shetland cattle numbers from 1987 to 2004 is presented in Table 5. Note that as well as beef cow numbers and total cattle numbers, the “Male Cattle 1 to 2 years” category has been selected as an indicator of cattle being retained for finishing or at least for growing on to heavier weights. The numbers of beef cows and heifers plus total cattle numbers for the 1971 to 1988 period are presented at Table 6. These tables should be compared to the Scottish cattle trends in Table 7.

Table 5. Shetland Breeding and Total Cattle Numbers 1987 to 2004

<i>Year</i>	<i>Total Beef Cows (not including Heifers)</i>	<i>% Change on Previous Year</i>	<i>Male Cattle 1-2 Years</i>	<i>Total Cattle</i>	<i>Dairy Cows & Heifers</i>
2004	2013	1%	322	6110	
2003	2037	0%	343	6010	647
2002	2044	+3%	358	6037	
2001	1987	+1%	325	5756	617
2000	1966	-5%	346	5728	
1999	2065	-3%	331	6028	
1998	2141	+3%	330	6206	
1997	2086	-3%	380	6191	
1996	2153	+2%	366	6224	
1995	2111	+3%	282	5854	
1994	2053	+5%	251	5760	
1993	1947	-2%	204	5412	
1992	1982	+2%	203	5653	
1991	1945	-1%	227	5701	655
1990	1964	-5%	196	5666	
1989	2060	-5%	176	5879	
1988	2174	0%	317	6384	691
1987	2181		429	6569	

Source: SEERAD Census

Table 6. Shetland Breeding and Total Cattle Numbers 1971 to 1988

<i>Year</i>	<i>Total Beef Cows & Heifers</i>	<i>Dairy Cows & Heifers</i>	<i>Total Cattle</i>
1971	2492	791	6945
1974	2797		7459
1975	2731		7157
1976	2600		6828
1977	2446		6504
1978	2387		6257
1979	2162		5951
1980	1985		5337
1981	1896		5103
1982	1766		4928
1983	1826		5289
1984	2093		5781
1985	2147		6112
1986	2251		6340
1987	2130		6458
1988	2347	619	6353

Source: "Shetland in Statistics"

Table 7. Scottish Breeding and Total Cattle Numbers 1987 to 2004

Year	Total Beef Cows (not including Heifers)	% Changes on Previous Year	Male Cattle 1-2 Years	Total Cattle
2004	495,982	+1%	224,545	1,964,184
2003	489,594	0%	223,017	1,948,209
2002	488,789	0%	221,106	1,934,678
2001	489,074	-6%	211,485	1,905,320
2000	518,597	-1%	217,644	2,029,329
1999	524,754	-2%	219,282	2,044,276
1998	534,518	+4%	220,475	2,078,296
1997	513,751	0%	228,574	2,078,904
1996	514,531	0%	231,067	2,115,103
1995	512,590	+0.5%	228,983	2,073,745
1994	509,214	+1%	226,177	2,091,923
1993	505,565	+1%	234,752	2,076,324
1992	498,689	+2%	235,578	2,122,550
1991	489,140	+4%	230,118	2,122,087
1990	471,686	+5%	232,534	2,106,237
1989	451,324	+5%	234,958	2,074,517
1988	430,298	+2%	237,018	2,062,805
1987	423,127		244,676	2,079,776

Source: SEERAD Census

The trend in numbers of holdings carrying cattle in both Shetland and Scotland is presented in Table 8 below.

Table 8. Trend in Number of Cattle Holdings in Shetland and Scotland, Selected Years 1987 to 2004.

Year	Number of Shetland Cattle Holdings	No. of Holdings as % of 1987	Number of Scottish Cattle Holdings	No. of Holdings as % of 1987
2004	198	55%	13,949	66%
1997	232	65%	16,693	79%
1992	288	84%	19,298	92%
1987	358	100%	21,049	100%

Key Points:

- Over the 30 years analysed Shetland beef cattle numbers are surprisingly static. Numbers were a bit higher in the 1970's, but since the late 70's have fluctuated around 2,000 breeding cows and 6,000 cattle in total.
- What has changed dramatically is the number of holdings carrying cattle in Shetland. This has declined by almost 50% since the late 1980's – much faster than in Scotland as a whole. Shetland may have roughly the same number of cattle as in the past, but they are now on less than 200 units.

- The dairy herd is also fairly static at between 650 and 700 cows over the last 25 years.
- The “Male Cattle 1 - 2 Years” numbers have increased since the early 1990’s perhaps suggesting a move to more finishing or at least toward keeping cattle longer to claim the Beef Special Premium, rather than selling as weaned calves.
- Over the 1987 to 2004 period Shetland beef cow numbers have decreased by almost 8% (0.35% per annum), while Scottish cow numbers have increased by 17% (approximately 1% per annum). This suggests that the recent high rates of subsidy on beef cows has increased Scottish numbers, but only managed to maintain Shetland numbers. There may be a natural limit on Shetland numbers anyway, related to the quantity of suitable land, facilities and labour available for forage production and for profitably wintering cattle.
- It should be noted that while Scottish numbers have increased since 1987, they peaked in 1998 and then declined relatively sharply as producers made use of the Suckler Cow Premium heifer rule. This decline did not happen to the same extent in Shetland.
- Key points for forecasting future cattle numbers in Shetland are the long term “natural limit” or stability in breeding cow numbers (and seeming lack of response to subsidy changes), the concentration on to fewer units (which in itself puts a limit on expansion) and the slight increase in cattle rearing (which combined with the concentration of production on to fewer “professional” beef units, may help increase finishing).

C3. Livestock Projections

C 3.1. Future Drivers of Livestock Numbers: Survey Feedback

A range of farmers, crofters, dealers, processors, input suppliers and representative organisations were interviewed on the subject of future livestock numbers, finishing, exports and slaughtering and processing.

Sheep

- In the short term the Scrapie cull is having a major effect. 31,000 sheep were culled under the scheme in 2004 of which 11,000 were ewes (7,000 Shetland, 4,000 cross ewes). Similar numbers are expected in 2005 with a reduction thereafter, though there are likely to be a flock or two each year for several years. It was felt that Herd Basis tax rules, which require breeding numbers to be reduced for a 5 year period if the cull income is not to be taxed, would hold numbers down for that period with some possible restocking thereafter.
- CAP Decoupling is expected to have most impact on hill ewe numbers. Most of those interviewed expect these numbers to drift downwards over time rather than to collapse. However, past experience is that numbers will fall sharply when there is an opportunity to destock profitably. This fall is not expected to be entirely reflected in lamb numbers and total weight of lamb sold. Several quoted a rise in lambing % from 50% to 70% or 80% on the hills. A general picture described by some interviewees was that they had cut numbers most sharply under the

environmental destocking schemes, they might now “clean out” a bit more and then they would sit tight to see what happens to the CAP and prices.

- Market price is of course critical, but once again with the biggest impact on hill sheep with the lowest weight to sell. However, it was clearly stated that a proportion of Shetland production was not commercial. With an average flock size of 100 ewes and a high degree of crofting, many would continue in sheep production as long as it did not lose lots of cash.
- The LFASS scheme – important for cattle – was not seen as being so important for sheep. The 0.12 LU/Ha lower limit was seen as a bottom to ewe numbers, but there is nothing to stop producers going below this level.
- The availability of jobs off the croft or farm was seen as an important determinant in keeping a level of stock in place. Crofters with jobs can afford to invest and can treat the flock as a hobby. They have limited time, however, for additional activities such as finishing.
- There were mixed views on the importance of transport costs. Some felt the current problems could be overcome and that transport costs would not rise above recent levels. Others saw this as a growing problem which would help drive down Shetland ewe numbers.
- The availability of slaughtering facilities was not seen as an important determinant of ewe numbers at present, though a few felt it was critical for the future.
- Likewise breeding sheep sales were not seen as generally important and were in fact declining.
- Agri-environment schemes were seen as important in that they have driven reductions in the past. Recent proposed cuts in scheme rates were seen as a possible weakening of the role of these schemes.

Cattle

CAP Decoupling should have a major impact on breeding cow numbers especially give the sheer scale of headage payments in the past. However, the general talk was of some resurgence of interest in cattle. Environmental schemes are making big payments to encourage crofters to put on a few cattle. This may help use grass which is now available as a result of sheep reductions. The ESA scheme ensures there is plenty silage around. Crofters interest is not entirely commercial and may link to a bit of resurgence in traditional breeds such as Luing and Shorthorn. What may be very important in this shift is the boost which cattle can give to the total LFASS payment, especially if sheep have been reduced, allowing cattle to provide more than 50% of the Livestock Units on the croft.

Those in cattle on a reasonable scale tend to be committed producers on the better land. They tend to say they will cut back cows a bit, but will not come out altogether, certainly not while the Single Farm Payment is still substantial.

There is a questionmark over the stage to which beef producers will keep their calves. Store prices are still very strong, but if the end to the BSP scheme eventually works through to store prices it is unclear if this will stimulate more finishing to add value, or faster sale of the weaned calf to minimise costs.

Overall 5 to 10 year picture suggested by the survey.

- Hill ewes decline steadily. One producer suggested a 50% fall over 10 years, another 30%.
- In-bye cross ewe numbers may decline a bit or stay static in the long term. There is a feeling that there will be a dip in the next few years (partly due to the Scrapie Scheme) and then a bit of restocking thereafter. The general market price for lamb will be critical in setting cross ewe numbers in the long term.
- Hill lambing % will improve in some hills (by 20% to 30% max.) and condition of lambs will also improve, but this will depend on the location.
- Beef cow numbers may remain static overall, with a decline in the larger units and a small rise in small herds due to environmental schemes. There is a questionmark over the stage at which calves (especially steers) will be sold due to the uncertainty over buyers reactions to the end of the BSP scheme.

C 3.2. Previous Studies on Livestock Numbers

A major study on the potential impact of the CAP Mid Term Review was completed for HIE in November 2003. This involved the preparation of forecasts of the impact of full decoupling of subsidies on livestock numbers and crop areas throughout the Highlands and Islands. The initial forecasts were presented to groups of producers and stakeholders, including an invited group in Shetland, to gather their reaction to the numbers. This resulted in an updated report with revised forecasts.

The change in cropping, livestock and total financial output in the original and updated reports is presented in Table 9 below. Note that in this study Shetland was combined with the Western Isles in a "Specialist Sheep Area" grouping.

Table 9. Impact of Full Decoupling on "Specialist Sheep Areas" from HIE Report 2003.

	Original Forecast. % change.	Revised Forecast. % change.
Cereals	-27	-16
Fodder crops	-10	+8
Beef breeding cattle	-35	-35
Feeding cattle	-60	-30
Breeding ewes	-45	-30
Total sheep	-56	-37.8
Estimated Total Output	-38	-23.2
Crop Output	-28	-25.2
Livestock Output	-39	-23

Output per AWU		-33.5	-17.5
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The points made by the Shetland group for the preparation of the revised forecast are included at Appendix 4. These comments match many of those made in the survey described at C 3.1. above.

Key Points:

- This forecast was fairly pessimistic on cattle, especially in a Western Isles context which may overstate the position for Shetland.
- While decoupling was expected to speed up ewe reductions, lamb numbers fell less as lambing percentages were expected to rise.
- A shift to more forage crops such as rape was expected to allow a bit more finishing.
- The general feeling was that ewes would shift off the hardest hill areas and concentrate on the better in-bye, to produce a better quality lamb with more market value.
- While some gains in lambing percentages and weights were expected, the overall impact of decoupling and the related stock reductions was a fall in total agricultural output of 20% or more, at least in the medium term. This threatens the transport and supply sector infrastructure which needs volume for viability.

C 3.3. Scenarios for Future Sheep Numbers

Model of Shetland Sheep Production

Using 2003 numbers, we can very roughly model Shetland sheep production as follows.

2003 census numbers		Lambing %	Lambs
161,000 ewes	Shetland ewes 107,000	80%	85,600
	Cross ewes 54,000	125%	67,500
			153,100

The total lambs recorded in the census was 151,797 which is fairly close to our model estimate.

Model of destination of 2003 lamb crop:

Approx.	Exported	Slaughtered	Retained	Homekill	Deaths
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Census No.	lambs (88% of total sheep exports)	(assume all recorded slaughterings are lambs)	for Breeding	estimate	(approx. 5%) or held over to following year as feeding hoggs
152,000	85,000	4,580	35,000	20,000	7,420

This model provides a basis for estimates of exports and slaughtering at C 3.5. later.

Scenarios for Future Sheep Numbers

Scenario 1. "Optimistic Future".

Key features:

- The 1999 to 2004 flock reductions have already taken out a large proportion of the potential post-decoupling reductions.
- Lamb prices are generally strong with an especially strong store trade. This is assisted by decoupling related reductions in the ewe flock elsewhere in Europe where there are alternatives to sheep.
- Breeding stock prices are strong as mainland Scotland flocks switch to easy-care types such as Shetland crosses.
- Assumption is that the long term 1987 to 2004 trend in sheep numbers in Shetland represents the future 10 year trend. This is a reduction in ewe numbers of 0.1% per annum. However the pattern over the 10 years is a sharper fall in years 1 to 5 reflecting in part the impact of the Scrapie Scheme, with a slower reduction thereafter.
- This rate of reduction is applied below, and along with application of estimated lambing percentages provides a forecast of lamb numbers.

	Now	5 year forecast	10 year forecast
Total Ewes	161,000	145,000	159,000
Lambing Percentages			
Ewes – Shetland	80%	85%	85%
Ewes – Cross	125%	125%	125%
Lamb Forecast			
Ewes – Shetland	107,000	89,000	89,000
Ewes – Cross	54,000	56,000	70,000
Lambs – Shetland/ Shetland X	85,600	75,650	75,650
Lambs - Cross	67,500	70,000	87,500
Total Lambs	153,100	145,650	163,150

Scenario 2. Continuation of Recent Trend.

Key Features:

- The 1998 to 2004 rate of reduction is indicative of the long term 10 year trend. The reductions over this period due to environmental destocking and more recently the scrapie scheme are indicative of a structural loss of profitability.
- Market prices are at current levels but do not improve to check the decline. Some increase in sheep production in mainland UK undermines the store and finished market for Shetland lambs.
- The overall reduction over the next 10 years is the 1998 to 2004 trend (but with the unusually high 200/01 reduction of 7% due to the FMD related culls “flattened” to 2% - the same rate as the previous and following year). This is an annual drop of 1.75%. Compound over 10 years this represents a fall of 16.2%. As with Scenario 1 there is an assumption of a faster fall in the next 5 years due to Scrapie Scheme reductions.

	Now	5 year forecast	10 year forecast
Total Ewes	161,000	145,000	135,000
Lambing Percentages			
Ewes – Shetland	80%	85%	90%
Ewes – Cross	125%	125%	125%
Lamb Forecast			
Ewes – Shetland	107,000	89,000	75,000
Ewes – Cross	54,000	56,000	60,000
Lambs – Shetland/ Shetland X	85,600	75,650	67,500
Lambs - Cross	67,500	70,000	75,000
Total Lambs	153,100	145,650	142,500

Scenario 3. Pessimistic Future.

Key Features:

- Poor prices for lambs, especially Shetland hill stock
- Store market declines as mainland flocks expand, as supply chains to major abattoirs are tied up and as transport costs rise sharply. Unlike other scenarios, production from in-bye cross ewes is hit badly.
- LFASS changes remove stocking rate incentives
- No real demand for Shetland cross breeding stock

- Shetland crosses on in-bye displaced by other breeds removing some of the need for Shetland hill flocks.
- General extensification of production. Fertiliser and other input use reduced.
- 10 year reduction; 50% of hill stock, 30% of in-bye stock.

	Now	5 year forecast	10 year forecast
Total Ewes	161,000	126,000	91,000
Lambing Percentages			
Ewes – Shetland	80%	85%	100%
Ewes – Cross	125%	125%	135%
Lamb Forecast			
Ewes – Shetland	107,000	80,000	53,000
Ewes – Cross	54,000	46,000	38,000
Lambs – Shetland/ Shetland X	85,650	68,000	53,000
Lambs - Cross	67,500	57,500	51,300
Total Lambs	153,100	125,500	104,300

C 3.4. Scenarios for Future Cattle Numbers

Cattle numbers have been remarkably static over the last 30 years. Many factors suggest this will remain so. There is a limitation of good land, a concentration of cattle into less than 200 units (and a skewed distribution within that number with a small number of producers carrying a large proportion of the cattle) and a very sharp reduction in cropping over the last 15 years (see table 11 later). To increase cow numbers in a post decoupling world would need a very large financial incentive. Environmental schemes are providing this incentive, but only for small numbers of cows on units where none exist at the moment. In this environment the future of cow numbers (and finishing numbers) is closely related to the store cattle price.

Cattle Scenario 1. Strong Store Trade/ Environmental Support for Cows.

Key Features:

- Mainland buyers use their SFP to keep buying stores at pre-decoupling prices, because store cattle are in short supply (especially as mainland cow numbers ease back) and they are tied into their farming systems.
- The SFP does not decline sharply
- The LFASS changes and cattle incentives are removed, but the new RDR includes other incentives for cattle rearing in remote areas.
- Shetland producers keep up cow numbers to maximise the numbers of stores they can sell.

- New producers under the environmental schemes get a ready trade for their weaned calves. These new producers make up for cuts in cow numbers amongst the “professional” producers.

	Now	5 years	10 years
Beef Cow Numbers	2,013	2,000	2,000

Cattle Scenario 2. Decline in Store Trade/ LFASS change

Key Features:

- The loss of the BSP, extensification premium and Slaughter Premium does work through to store steer prices which fall fairly sharply. However, finished cattle prices are roughly similar to previous years.
- This hits the profitability of both established and new producers. The uptake of environmental cow schemes slows.
- The LFASS is revised – the cattle stocking rate incentive is removed.
- Existing herds cut back cow numbers and those on the best land (and with facilities) finish a few more cattle to generate more margin. New cow keepers do not generally have the facilities or expertise to finish their calves. One or two producers become specialist finishers given that store prices are lower.
- The HIE study on the impact of the CAP reforms suggested that in this scenario cow numbers in areas like Shetland would fall by 35% over a 10 year period. This projection assumed that the LFASS cattle incentive stayed in place. In Shetland we could assume that the environmental cattle schemes will make up for the loss of this measure. There is a slower rate of fall over the first 5 years as it takes time for the store price to decline.

	Now	5 years	10 years
Beef Cow Numbers	2,013	1,780	1,308

C 3.5. Finished Livestock and Export Projections

Survey Feedback

Sheep

- For sheep there is an expectation amongst almost all those interviewed that the number of finished lambs will increase off grass in the autumn, due to ewe reductions.
- This especially holds for the hill situation, but perhaps not for the in-bye. Several producers thought that the in-bye was already understocked in the summer and ewe reductions would mean the grass got past the lambs, reducing individual performance.

- The real problem is for finishing outwith the autumn peak. Many felt that this was uneconomic in most of Shetland without the SIC £1/month subsidy.
- Interviewees felt there were a lot of constraints for finishing over the winter. Most do not have sheds or forage crops. Time is limited for part-timers who want to get rid of their lambs at the end of the grass season. The cost of importing concentrate feeds is high. One interviewee had worked out that the extra freight cost on taking feed to Shetland would pay for the labour to feed his lambs in Aberdeenshire.
- However a few were successfully feeding lambs, using silage and straights.
- Many felt that the lambs being finished over the winter were often the poorest 10%/ 4th, 5th draw. These had poor store value so finishing was an attempt to turn them into some sort of value. An added problem was the Shetland breeds poor feeding ability.
- It was pointed out that in the 1950's and 60's most of Shetlands lambs were finished. This was a period with higher labour levels in the industry, more cropping and lower total sheep numbers.
- At present a fair number of the lambs sold store in the autumn were felt to be nearly fat. One producer thought that it would be quite feasible to finish 25% of the lambs produced in Shetland at present, if producers were shown how to do it.
- Several contributors felt that any increase in finishing would only happen if there was an integrated approach, for example with advice on how to do it and links to the abattoir through a producer group giving some sort of market certainty and clear guidance on specs required.

Cattle

The view of interviewees, in summary, was that only the best units could contemplate finishing cattle. This was especially the case for those growing crops with home-grown cereals, straw and other forage crops. High store prices, especially for steers mean that it is uneconomic to finish the best cattle on Shetland – the poorest with a poor store market price, are more likely to be finished. Some felt changes in breeds were needed to allow easier feeding on forage alone without large quantities of cereals. Slaughterers commented on the poor quality of some of the cattle available for slaughter in terms of carcass quality and meat yields.

Economics of “Out of Season” Finishing.

In assessing likely future slaughter numbers in Shetland, it is important to consider the economic pluses and minuses of finishing stock in the Islands.

Minuses	Pluses
<ul style="list-style-type: none"> • Labour availability (see table 10 below). There are consistently about 2,000 occupiers and their spouses involved in Shetland agriculture, but they are steadily shifting from full-time to part-time. • Decline in cropping (see table 11 below). Shetland is very rapidly losing its cropping expertise. Cropping correlates closely to the 	<ul style="list-style-type: none"> • Transport cost in relation to animal value. There is a clear incentive to increase animal value to justify high unit freight costs • Slaughtering in Shetland has a number of simple financial advantages. For example; (1) Live lamb transport is around £5 per head, while a carcass ships at around £2. Why pay for transporting guts and

<p>ability to winter finish cattle and lambs.</p> <ul style="list-style-type: none"> • Imported feed costs – need some sort of concentrate feeding if are to take stock through to late winter. • Technical knowledge – most producers do not have finishing skills • Breed – Shetland lambs are poor winter feeders, yet these are often the bottom end which need value added • Risk – the market is unclear, in recent years the Shetland slaughter stock market has been very small and erratic, with slow payment in some cases. • The store option is simple and low risk • Cashflow – store sales mean low investment and a quick return 	<p>bones south? (2). Live animals suffer weight loss in transport. (3) Importing a beef carcass costs 22p/kg. This is a £66 “margin” (on a 300kg carcass) to cover the extra costs of finishing and slaughtering in Shetland.</p> <ul style="list-style-type: none"> • Producers who finish stock do have flexibility in marketing in that they can sell locally or ship south. • Cereal prices are falling.
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Table 10. Trends in Agricultural Labour In Shetland 1987 to 2004.

Year	Full-time occupiers and spouses	Part-time occupiers and spouses
2004	283	1801
2003	305	1782
2002	294	1824
2001	322	1854
2000	347	1830
1999	376	1849
1998	377	1842
1997	381	1855
1996	N/A	
1995	359	1852
1994	316	1832
1993	292	1742
1992	N/A	
1991	297	1859
1990	364	1751
1989	458	1664
1988	434	1667
1987	422	1659

Table 11. Trends in Shetland and Scottish Cropping.

Year	Shetland total crops, set-aside and fallow (Ha)	Shetland as % of total (%)	crops 1987	Scotland total crops, set-aside and fallow (Ha)	Scottish crops as % of 1987 total (%)
2004	353		38	643,288	94
2003	399		43	643,313	94
2002	446		48	649,693	95
2001	436		47	652,453	96
2000	369		40	651,689	96
1999	399		43	655,536	96
1998	398		43	660,123	97
1997	388		42	659,624	97
1996	423		46	654,199	96
1995	468		50	643,263	94
1994	527		56	641,910	94
1993	632		68	649,451	95
1992	723		78	642,994	94
1991	740		79	633,551	93
1990	889		96	644,289	95
1989	950		102	658,340	97
1988	932		100	676,371	99
1987	929		100	681,265	100

Finishing and Export Forecasts

The following ignores the potential of the local abattoirs to process more lambs and cattle.

The forecasts of finished lamb numbers are stock actually marketed as fat. It ignores the proportion of store lambs which are at or near finished condition.

The following are forecasts of numbers. Weight and therefore total value are also significantly affected by some of the scenarios below.

Given the difficulty of justifying the extra costs of carrying over lambs for winter finishing, the SIC finishing subsidy is a critical determinant of the level of future finishing.

Sheep

Refer back to the scenarios for future sheep numbers at C 3.3. These are used below as the basis for forecasting finished lamb numbers.

Finished lambs forecast.

	Scenario 1	Scenario 2	Scenario 3
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	Optimistic Future	Recent Trend	Pessimistic Future
Lamb production – 5 years	145,650	145,650	125,500
Lamb production – 10 years	163,150	142,500	104,300
Assumption 1. Finishing subsidy continues.			
Sold finished % 5 years 10 years	10% 10%	15% 20%	20% 30%
Numbers sold finished 5 years 10 years	14,565 16,315	21,848 28,500	25,100 31,290
Assumption 2. No finishing subsidy.			
Sold finished % 5 years 10 years	5% 5%	5% 10%	10% 20%
Numbers sold finished 5 years 10 years	7,282 8,158	7,282 14,250	12,550 20,860

The above suggests, in 10 years time, a minimum future finished lamb total of around 8,000 head per annum and a maximum of approximately 31,000.

In 5 years time the above suggests a minimum of 7,000 finished lambs available and a maximum of 25,000.

Export Lambs Forecast

Refer back to the sheep model at C 3.3.

	Finished lambs	Total lambs	Exported	Potential maximum slaughtered	Retained for breeding	Homekill	Deaths, carryover.
Min finished lambs scenario							
5 years	7,282	145,650	78,968	7,282	31,900	20,000?	7,500
10 years	8,158	163,150	91,492	8,158	35,000	20,000?	8,500
Max finished lambs scenario							
5 years	25,100	125,500	46,400	25,100	27,700	20,000?	6,300
10 years	31,290	104,300	27,810	31,290	20,000	20,000?	5,200

The above suggests a very big range in potential annual lamb export numbers in 10 years time, with a minimum of 27,800 (a bit less than a third of current numbers) and a maximum of 91,000 (close to or above current numbers). The low export forecast assumes a very high lamb kill on Shetland in comparison to historic levels.

The 5 year forecast range is much narrower with a minimum of approximately 46,000 lambs per annum.

Note that these are only lamb export forecasts and exclude export ewe numbers.

To put these forecasts of finished lamb and export forecasts in to context, refer to table 12 below. This shows the long term trend in sheep and cattle exports and slaughterings on Shetland since 1971. Note that the slaughterings will include stock imported for slaughter (especially Orkney cattle). The maximum numbers of sheep and cattle slaughtered in one year over this period were 17,117 and 480 respectively.

Table 12. Shetland Slaughter and Export Statistics 1971 to 2004.

Year	Registered abattoirs (Number)	Sheep kill (head)	Cattle kill (head)	Pig kill (head)	Sheep kill as % of June census lamb nos. (%)	Sheep export (head)	Sheep exports as % of June census lamb nos. (%)	Cattle exports (head)	Cattle exports as % of June census cow nos. (%)
2004	3					132639	86		
2003	3	4580	95	166	2.8	96711	64		
2002	3	2806	59	277	1.7	96671	63	1264	62
2001	3	3520	76	167	2	114251	68	862	43
2000	3					106494	63	1832	93
1999	3	2200	129	423	1.2	100900	57	1861	90
1998	2	1550	175	203	0.8	107165	59	1683	79
1997	2	2446	151	46	1.3	129926	73	2151	103
1996	3	2446	89	111	1.3	122539	72	1938	90
1995	2	3745	29	31	2	113713	68	2314	110
1994	3	8620	30	40	4.8	100000	60	1700	83
1993	3	6703	151	37	3.8	98429	61	1688	87
1992	3	5900	360	64	3.2	98328	60	2196	111
1991	4	8712	339	33	5	99404	60	2117	109
1990	4	6395	234	23	3.8	104196	66	2074	106
1989									
1988	4	6169	430	54	3.6	101727	70	2427	112
1987	5	12402	408	107	7.6	92130	66	2382	109
1986	5	14510	446	77		84364		2198	
1985	5	17117	423	34		74482		1740	
1984	7	16954	480	23		74104		1739	
1983	8	15805	426	76		68196		1389	
1982	8	11875	361	65		65265		1704	
1981	8	9592	278	0		60542		2066	
1980	8	9276	192	2		56519		2162	
1979	10	6700	157	10		49099		2650	
1978		9516	131	11		57080		2831	
1977		12505	115	0		49028		2103	
1976		11440	136	0		49687		2660	
1974		13576	322			39886		2480	
1971		8417	485			43464		1947	

Cattle

Simple finishing and export projections.

Scenario 1. String Store Trade/ Environmental Support for Cows

Refer back to beef scenarios at C 3.4.

Forecast follows current pattern of finishing and exports.

	5 years	10 years
Beef cow numbers forecast	2,000	2,000
Calves born		
%	90%	90%
Number	1,800	1,800
Retained for breeding	300	300
Deaths (5%)	90	90
Finished (potentially available for slaughter)	200 (11%)	200 (11%)
Export calves	1,210	1,210
Cull cow/ bull exports	200	200
Total cattle exports	1,410	1,410

Scenario 2. Decline in Store Trade/ LFASS cattle incentive lost

Greater incentive to finish calves, but less cows.

	5 years	10 years
Beef cow numbers forecast	1,780	1,308
Calves born		
%	90%	92%
Number	1,602	1,203
Retained for breeding	240	180
Deaths (5%)	80	60
Finished (potentially available for slaughter)	200 (13%)	400 (33%)
Export calves	1,082	563
Cull cow/ bull exports	160	120
Total cattle exports	1,242	683

These simple forecasts suggest a maximum number of cattle available to slaughter of 400 head and a minimum of 200. This does not guarantee that they are all slaughtered in Shetland.

Export cattle numbers in 10 years time are a minimum of 683 head and a maximum similar to recent levels of 1,410 head per annum.

D. ABATTOIR AND PROCESSING OPTIONS

D 1. Introduction

The two main slaughter and processing facilities in Shetland at Laxfirth and Boddam were inspected and reviewed as part of this study. Discussions were held with both SLMG – the Laxfirth operator, and the Smith family – owners of the Boddam abattoir. The small facility in Yell has not been included in this review, though the report author has in the past visited this site.

This report concentrates on the factors which limit the profitability of the facilities as meat processing sites, and provides indicative costs for upgrading each facility to tackle these issues. In addition an indicative cost has been obtained for a new facility. Sketch plans for the upgrades and the new plant are presented in the Appendices.

D 2. Review of Existing Abattoirs and Upgrade Estimates.

D 2.1. Laxfirth Abattoir

The abattoir at Laxfirth has a full EU slaughtering licence (No1137) and is in extremely good condition for its age. It is well operated, well maintained and cleaned and consequently currently scores highly (93 out of 100) on the Meat Hygiene Service - Hygiene Assessment Scheme.

Undoubtedly some of the apparent 'good condition' is attributable to the fact that over the years the low throughputs of carcasses passing through the plant mean that it has not been worked very hard. Last year only 2,584 sheep were slaughtered and in some years this number was even less. It should also be borne in mind that it is easier to maintain a small stock plant than one slaughtering larger animals such as cattle.

The potential profitability of the Laxfirth slaughtering facility is limited by a number of factors;

8. Inadequate lairage space for livestock.
9. Limited chill capacity for carcasses.
10. Limited meat cutting facilities at the factory.
11. Inability to slaughter other species such as cattle or pigs
12. Seasonality effects on a single species factory.
13. Tendency of farmers to ship animals to the mainland live.
14. Lack of a consistent higher value market and brand identity.

Each of these factors is dealt with in turn below. See Appendix 1 for a sketch plan of the Laxfirth facility upgrades.

1. Lairage Capacity

The existing lairage holds 50/70 sheep/lambs depending on their size. At present during busy kill periods the abattoir is able to rent additional lairage space in a shed adjacent to the slaughtering facility. However, there is enough area within the abattoir site to create additional covered lairage to ease the problem of holding more live animals at any one time. (see sketch drawing, Appendix 1)

Estimated cost for additional lairage	£41,000.00
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2. Chill Capacity

The existing chill rail system holds 200 sheep carcasses. The 12 rails (each approximately 4 metres long) are currently spaced at 900mm centres which is excessive. In simple terms it would be possible to add another rail between each of the existing rails reducing the spacings to 450mm (industry norm) which is quite adequate for chilling sheep carcasses. This would immediately double the sheep chilling capacity to 400 carcasses.

The strength of the existing steel structure and the duty of the refrigeration units would have to be checked to ensure these extra loadings could be accommodated. Typically it takes 12 hours for the chills to bring the meat temperature down to 7 degrees.

The present staff have become used to working the plant with these generous rail spacings which do give them the ability to walk between the carcasses to assess and select carcasses. However, as the plant desperately needs more throughput to achieve profit the luxury of wide spacings should be sacrificed. A halfway house solution would be to allow some selection rails and settle for increased capacity of say 300 sheep carcasses. Having increased the chilling capacity there would be an argument for upgrading the sheep slaughterline by adding some labour saving machinery which would increase the numbers of sheep that could be processed per hour.

Estimated cost for more rails (inc 200 extra hooks) (not including steelwork and refrigeration factors)	£22,000.00
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Estimated cost for more sheep slaughter equipment	£16,000.00
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3. Meat Cutting Facilities

The existing meat cutting room (3.7 x 2.7 metres) is wholly inadequate to allow any meaningful further processing of carcasses. There is space available at the front of the factory to allow a larger cutting room and improved despatch area to be added or alternatively consideration could be given to relocating the cutting process. Perhaps if the cutting process was undertaken in a 'farm shop' environment, in a location where

the footfall of consumers were greater then it may attract more local sales. One possible location would be at the Staneyhill Livestock Auction Mart. The mart is operated by the same management as the abattoir and is also under utilised, being only busy during the months of September and October and returning only modest profits through its various activities. Financial assistance for such a development may be available through a Processing and Marketing Grant.

Estimated cost to add a larger cutting facility at Laxfirth	£75,000.00
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4 & 5. Single Species and Seasonality Issues

Throughout Europe it is increasingly difficult to operate a 'sheep only' slaughter plant profitably. Many such plants have ceased to trade in recent years simply because the number of 'money making weeks' during the year has been squeezed, as have the available financial margins. In an Island situation, particularly a very northerly located island such as Shetland, where the peak season is very short, these problems are even more acute. It is remarkable that the Laxfirth factory has returned reasonable financial results on such a meagre throughput. The management of the plant have been able to reduce the cost effects of the seasonality issue by paying the 2/3 staff on headage rates rather than as full time workers. Currently some of the administration costs are also borne by a support scheme (MDS) which still has 18 months to run.

All waste products including blood are dealt with efficiently and effectively by being sent to the Island incinerator. Waste water passes to a septic tank. Recently built housing in the vicinity of the abattoir may bring changes to how the sewerage is dealt with in the future. Should the abattoir have to absorb any of these costs then the bottom line of the balance sheet could be seriously affected.

During last year the abattoir has subcontracted the slaughter of 103 cattle to the abattoir at Boddam which charges £67.50 per beast for the service. This is a high rate of charge and reduces any profit margin that Laxfirth may return. If cattle could be killed at Laxfirth and indeed if the numbers could be increased then margins could improve and the volume passing through the plant would also contribute to the overhead costs.

Assuming that the lairage capacity could be increased to include holding capacity for 2 or 3 cattle then a simple beef slaughter arrangement similar to the Boddam system may well be possible within the Laxfirth building. Due to structural constraints within the existing building there may have to be some compromises. For example the beef may have to be chilled as quarters rather than sides. Although sides chilling may not be structurally impossible it may be relatively expensive to achieve.

Pig slaughter would be easier to engineer within the Laxfirth building and would again boost vital throughput assuming that there is a market for the final product.

Estimated cost to add a beef slaughter at Laxfirth	£45,000.00
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Estimated cost to add a pig slaughter at Laxfirth	£30,000.00
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6 & 7. Live Shipments and Product Branding

Shetland Livestock Marketing Group have a membership scheme aimed at not only helping farmers with health and welfare schemes and encouraging them to finish more of their stock, but also aimed at generating some loyalty from the farmers when they are deciding where to send their stock for slaughter. The scheme is a little complicated and of marginal benefit to the farmer apart from a preferential rate at time of slaughter. These preferential rates do not seem to be attractive enough as the number of scheme members is static or dwindling. Maybe a livestock collection service would be more attractive and make it easier for the farmer to send his stock to Laxfirth rather than the Mainland. This may also help the abattoir schedule stock arrivals bearing in mind the limited livestock holding pens at Laxfirth.

The SLMG management have also invested in some market research and product branding initiatives, which suggest that new markets are available provided that they can regularly supply a consistent niche lamb product. For this they may need to instigate a livestock producer club to get both farmers and customers on board and to help schedule supply and manage quality.

Many regions throughout the UK are searching for the Holy Grail of establishing a recognised brand of sheepmeat for their area. Orkney Meats have done it successfully with their beef, but it is not easy to achieve and it takes considerable time, effort and investment.

It is for the Shetland Livestock Marketing Group to decide its own trading policy – is the abattoir required to return profits or rather provide a service for the island farmers and meat buyers? Without increased volume there will be no profits -without profits it would seem difficult to attract commercial backers willing to invest in any further development of the meat business and possibly the building of a replacement abattoir capable of killing 3 species in great numbers and with more processing on site. With the current abattoir agreement running out in 2009 the construction of a new facility would have to come largely from grant aid which may be in direct conflict with EU competition regulations.

Investing in the Laxfirth facility may involve some compromises (that is almost inevitable with the seasonality issue), but the construction of a completely new abattoir would be expensive and would not solve the major issues of

- Finding consistent, good quality, finished stock.
- Establishing a brand
- Finding better margin markets

Total Laxfirth upgrade costs as listed above	£229,000.00
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D 2.2. Boddam Abattoir

The abattoir at Boddam does not have an EU licence, but does operate under full Veterinary and Meat Hygiene service supervision. The facility is quite primitive consisting of 4 distinct areas. A lairage (7 x 4.5metres), a slaughterhall (7 x 4.4 metres) a carcass chill room (7 x 7.1 metres) and a small toilet and store area. The buildings are 16 metres back from the public road and there is area for expansion to the other three sides of the existing buildings.

Although the facility is primitive in terms of structure (operating under a derogation) and technology it is in reasonably good order and is kept clean. Some maintenance is required to wall, floor and ceiling services. Outside there is only one vehicle access and there is a rudimentary vehicle wash point. The site is adequately serviced with water and electricity. Waste water passes to a septic tank which currently copes with the volumes being processed.

The facility is operated by the Smith family (father and son) in conjunction with their butchers shop in Lerwick, their mobile produce shop which tours the Islands and some sub-contract cattle killing for Shetland Livestock Marketing Group. They have markets for milk lambs, cattle, pigs, Shetland lambs and ewes. They also serve hotels, restaurants and other butchers shops across the Islands. They have plans to upgrade their slaughter facility, possibly purchase a meat cutting facility in Scalloway and are hopeful of a significant contract to supply sheepmeat to the Faroes.

In order to service the Faroes contract and future convenience store orders they would require the ability to sell meat in retail packs hence their interest in a meat cutting/packing facility.

The sheep and cattle that they slaughter are frequently sourced through dealers with half the cattle coming from the Orkneys.

To realise all these ambitious plans they would need considerable financial assistance from commercial backers or via some form of grant aid. To this end they have formulated a business plan and are currently investigating sources of funding and equipment.

Per annum they currently slaughter the following approximate numbers of stock.

2000 Sheep	slaughter charge per head	£ 6.50
300 cattle	slaughter charge per head	£ 67.50
300 pigs	slaughter charge per head	£ 15.00
Occasional sow		

The potential profitability of the Boddam slaughtering facility is limited by a number of factors.

5. Inadequate lairage space for livestock.
6. Limited chill capacity for carcasses.
7. Limited meat cutting facilities at the factory.
8. Inability to slaughter higher volumes of sheep
5. Lack of a full EU Slaughtering licence

Each of these is dealt with in turn below. See Appendix 2 for a sketch plan of upgraded Boddam facility.

1. Lairage Capacity

The existing lairage space is only 7 x 4.5 metres and wholly inadequate for higher volume throughputs. There is available space to the side of the existing lairage to allow an extension and the addition of an isolation pen.

Estimated cost for additional lairage	£42,000.00
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2. Chill Capacity

The exiting carcass chill only has one high level rail for beef hanging and some racks for sheep hanging. This room could be railed out to provide more chill capacity. The duty of the refrigeration units would have to be checked to ensure these extra loadings could be accommodated.

Estimated cost for railwork & hooks	£34,500.00
Upgrading of refrigeration and insulation (if required)	£24,800.00

3. Meat Cutting Facility

The present factory does not have a designated cutting area consequently most of the cutting is carried out at the butchers shop in Lerwick. The operators are currently investigating the feasibility of purchasing a redundant food processing unit in Scalloway to allow them to expand their meat cutting capacity. The likely cost of this purchase is unknown.

Clients' estimated cost for equipping cutting facility	£150,000.00
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4. Upgrading of Sheep Slaughterline

Typically the plant operates two days per week in the summer rising to 5 days per week during the peak season (August/September) using 3 slaughtermen paid on headage rates. To fulfil anticipated demand the very basic sheep slaughtering and dressing arrangement needs to be upgraded to allow greater throughputs.

Estimated cost for upgrading slaughter capacity	£52,000.00
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5. Upgrading to a Full EU Slaughtering Licence

In order to be able to process greater numbers of sheep carcasses the factory should be upgraded to full EU slaughtering status. This may require a second access from the public road to comply with the requirement to separate 'clean' and 'dirty' vehicles. (i.e. vehicles carrying edible product are 'clean' and livestock and waste vehicles are 'dirty')

The lairage, slaughter process, by-products and chilling areas all require upgrading and an additional refrigerated despatch should be built to the side of the existing chill. Subject to veterinary approval the operator intends to locate and build into the abattoir structure a (34' x 8') static caravan to act as offices and amenities (this cost not allowed for in the following estimates)

Estimated cost of new despatch and by-products areas	£63,200.00
Estimated cost of maintenance to existing structures	£10,000.00

Total Boddam upgrade and processing facility costs as listed above	£376,500.00
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The operators of the Boddam abattoir are serving a wide-ranging market and are confident with regard to the amount of business that they can generate. They are forward thinking and expressing an interest in other marketing tools such as the Shetland Food and Drink Group. They are also confident about their ability to source sufficient livestock of a suitable quality either direct from farms or through livestock dealers. They will need a consistent supply of livestock and all their diverse markets to generate enough volume of business to justify the expenditure that they are contemplating.

D 2.3. Conclusions on Existing Facilities

The abattoirs of Laxfirth and Boddam operate in what could be described as a symbiotic relationship.

Laxfirth needs Boddams ability to slaughter cattle and should benefit from processing larger sheep contracts for Boddam. Boddam enjoys the profits it makes from slaughtering beef for Laxfirth, but also needs Laxfirth to fulfil its potentially bigger orders.

If both abattoirs chose to upgrade (as outlined above) they would be much less reliant on each other but would be head to head in terms of competition for available Shetland livestock. If the numbers of livestock continues to decline it may be that the numbers of finished lambs improves a little but the decline may be accelerated by other factors such as the scrapie eradication scheme. In this dwindling livestock situation and with the possibility of mainland factories raiding the stocks of finished lambs, the numbers available to Laxfirth and Boddam may not be sufficient to sustain both plants. Conversely if ferry and transport costs were to rise then the outlook for the plants would be better.

In the marketplace the competition is less of an issue as, at present, the two plants serve generally different customers.

Both plants need more volume in order to generate operating profits and both plants need finance in order to be able to carry out their necessary upgrades.

D 3. New Abattoir Option

D 3.1. Background

Another option would be to build an entirely new meat factory capable of slaughtering 20,000 sheep, 1000 cattle and 1000 pigs per year. This would adequately serve the Shetland Islands needs (cattle consumption on Shetland estimated at 1200 per year) plus generating carcasses for export to the mainland.

This scenario assumes that both existing abattoirs cease trading and the businesses combine their kills to give the volumes necessary to economically run a single larger plant. How to formulate a business plan that could dovetail two totally separate entities would be a challenge. It would in effect be reverting to a Municipal Abattoir model and experience suggests that in the modern day meat trade this structure does not work well. There are no longer any Municipal abattoirs in the UK.

Building a new meat factory is also a complex project in terms of obtaining all the necessary consents and sourcing funding. Making a new larger plant achieve payback is even harder especially with the seasonality issues.

D 3.2. New Abattoir Cost

To build a meat factory to EU standards to suit the Shetland Islands' needs and generally as per the accompanying sketch would be £970,000.00

This price would include:

- A three species slaughterhall including equipment for processing cattle, sheep and pigs.
- Lairage for pigs, cattle and 250 sheep
- A carcass chill for beef and a separate carcass chill for 400 lambs
- Building works and utilities within the building
- Offices and amenities
- A septic tank and a simple lorry wash
- Refrigeration and insulation including doors.

Add £26,000.00 to equip the new cutting facilities to a reasonable level.

A slight allowance has been added to cover any increased costs that may be incurred through the remote location of the Shetland Isles.

See Appendix 3 for sketch plan of new facility.

This price would not include:

- Land purchase and legals generally.
- Supplies of utilities and telecoms to the site
- Any allowances for poor site conditions
- Office equipment and consumables

A perimeter fence and concrete yards
An effluent treatment plant.
A forklift truck
Architects, consultants and engineers fees.
Planning and building fees.
Bank charges and contingencies

D 3.3. General Principles for Construction of EU Licensed Slaughtering Premises

The site must be clearly defined and serviced with wholesome water and some form of water heating. A vehicle wash area should be provided.

Clean and dirty entrances and yards must be separate and defined.

The unit should comprise of a lairage, slaughterhall, by-products rooms, chilling facilities, detained meat facilities, product despatch area, packaging store, chemical store and plant room.

Staff and Veterinary Officers should have adequate amenities.

Water must be positively drained away from 'clean areas' and drains must be trapped.

Floor and wall surfaces should be smooth, durable, impermeable, and easy to clean. Walls should be light coloured and floors laid to falls to prevent puddling.

All materials used in meat areas should be non-rusting, rot proof and wood is not permitted.

Adequate staff washing facilities should be provided in processing areas and also equipment sterilisers operating at 82 degrees centigrade.

Food areas must be adequately ventilated but vermin proof.

Lighting standards must be maintained.

Equipment should be arranged to allow for correlation of carcasses and offals for inspection.

All construction methods must provide for a hygienic and easily maintainable structure.

D 3.4. Basic Construction Details of New Abattoir

For a plant processing cattle the eaves height should be at least 5.5 metres in which case it is frequently more cost effective to make an integral steel load bearing frame (with galvanised finish) to support the heavier rail loadings rather than relying on blockwork walls.

A building some 35 x15 metres is envisaged with some additional area provided for the offices and amenities.

Above a height of 3 metres the building would have insulated steel cladding to the walls and roof. Internal walls can be of a 'Rockwool' type insulated panel with insulated doors. The despatch area would have a dock shelter to suit the meat lorries servicing the premises.

The lairage walls could be blockwork at lower level and boarding at higher level to assist ventilation. The pens and gates would be of tubular rail design each with a drinker. A separate isolation pen is required for sick animals.

A blood storage tank can be installed outside the building.

It is assumed that the wastewater will be passed through a septic tank arrangement.

Note that we would not go as far as describing this new facility as the "ideal" slaughter and processing plant (as described in the project brief), but rather as a good, fit for purpose facility.

D 4. Alternative Processing Options

A number of other options for slaughtering and processing are possible. These were covered in the survey.

D 4.1. Do Nothing

This was the preferred option for probably the majority of producers interviewed. There is a fear that expenditure by SIC and others on processing facilities will divert support from other essential areas such as lime and fertiliser subsidies.

Pro's

- Forces abattoir operators to prove there is a profitable market for Shetland slaughtered and processed meat, and then justify capital expenditure.
- Does not divert funds away from other support to the industry
- Competition between SLMG and Boddam is good for the industry
- Forces Boddam and SLMG to cooperate and makes both work better and more efficiently.
- Avoid state aid rule problems

Con's

- Difficult to further process if no facilities
- Existing inadequate facilities create costs
- Fragile cattle slaughter relationship between Boddam and SLMG – a risk to development
- Facilities need upgrading just to stay operating

D 4.2. Mobile Abattoir

There is a strong development in this direction in the mainland Highland area.

Pro's

- Saving in capital cost – just need docking station and cutting room, chill, waste handling.
- Suits seasonal demand?

Con's

- Mobile facility is just a slaughter line – already have this in Shetland. What is missing is cutting facilities, chill and lairage.
- All areas of Highlands will need it at same time
- Aim to build a 365 day service, not seasonal.
- Limited capacity
- Transport cost and time to Shetland

D 4.3. Process on Mainland

An alternative is to concentrate on marketing and to sub-contract slaughter, processing and distribution to abattoirs further south which have expertise, lower costs and ample capacity.

Pro's

- Major saving in capital expenditure – concentrate funds on marketing, promotion and improving production techniques and quality.
- Lower operating cost? Can shop around?
- Use existing expertise and access to UK wide distribution channels

Con's

- Lose control of product – cannot physically select meat for particular clients.
- Loss of value in weight loss and quality in meat due to animal stress in transport
- Risk – relationship could end, processor may not give your orders priority.
- Effectively dealing with a competitor which has inevitable tensions

D 4.4. Shared Cutting Plant

It could be argued that the current working arrangement between Boddam and Laxfirth (cattle slaughtered at Boddam for SLMG, sheep potentially slaughtered at Laxfirth for the Smiths) is an efficient use of existing resources. What is missing is a cutting and processing facility for both businesses. The funding of a cutting plant, operated jointly or through a sub-contract arrangement from another body, might allow both businesses to fulfil their expansion plans and add value.

Pro's

- Efficient use of existing facilities, minimised new capital expenditure.

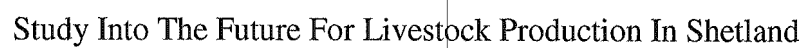
- Allows both businesses to do added value processing without each having to invest in facilities
- Fosters co-operation
- Less risk if the joint arrangement fails
- A stepping stone to independent facilities if both businesses manage to expand successfully
- Could use a converted building

Con's

- Each abattoir would still need investment in chill space, etc
- Joint/ sharing arrangements are risky and often difficult to operate
- Confidentiality
- Only likely to work if serving different markets

APPENDICES

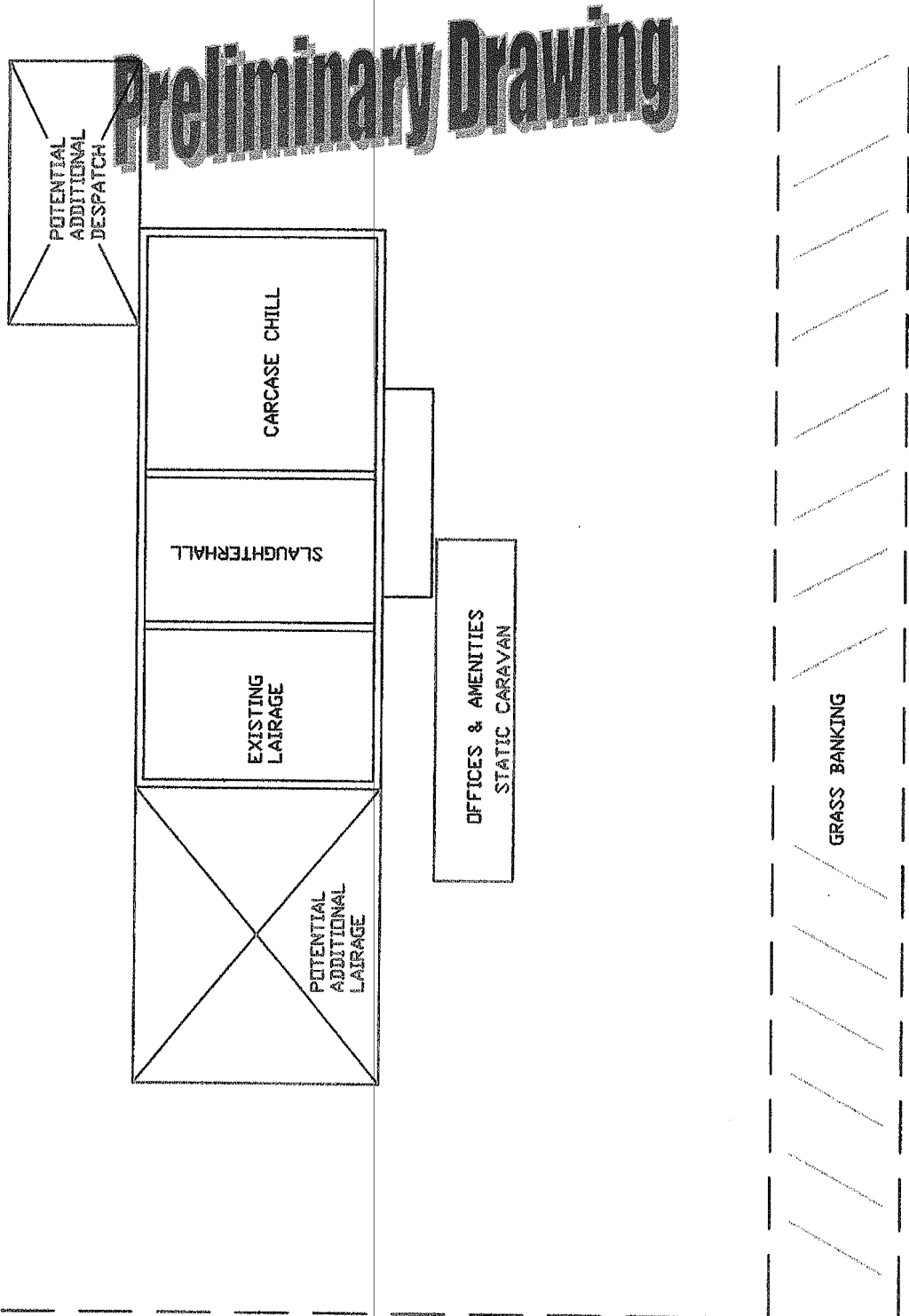
Appendix 1

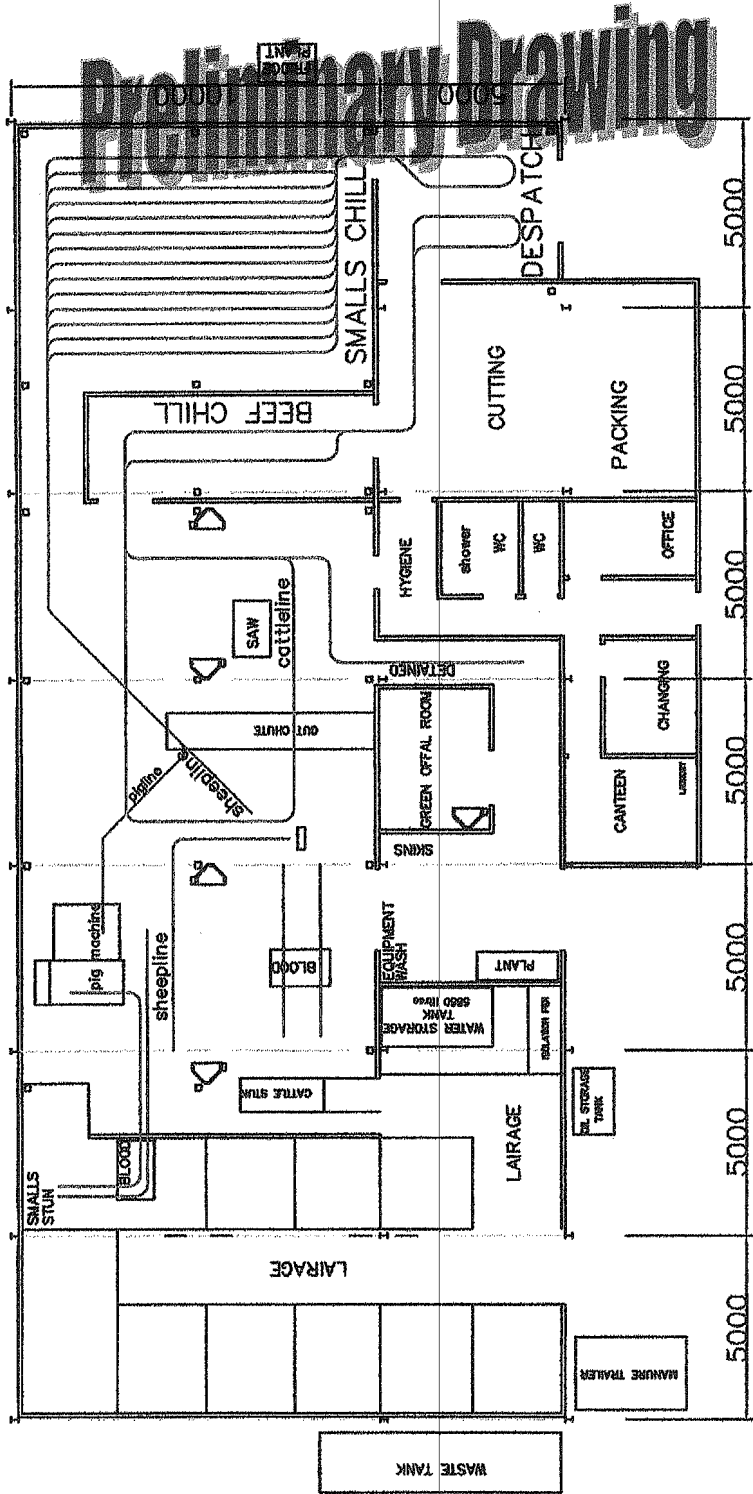


Sketch Plan of Upgraded Boddam Facility

BODDAM ABATTOIR

SCALE 1:200





PROPOSAL FOR SMALL ABATTOIR ON SHETLAND ISLES
Scale 1 = 200

2003 HIE Study on Decoupling Impact: Shetland Feedback.

Summarised Feedback from Shetland and the Western Isles

- In Shetland the group did not believe there would be the very big fall in sheep numbers (45%) predicted. There was a feeling that given a 10 year time horizon in the Western Isles there could be substantial reductions in ewe numbers.
- However, there was a strong feeling that lambing % and lamb weights would rise as ewe numbers fall.
- Ewe numbers were expected to fall on the hill, but not on the in-bye. Fall in hill numbers have little impact on physical output but could undermine the breeding pyramid (especially Shetland ewes).
- Stock reductions could be limited by the lower limit of the LFASS - some producers are already below.
- One strategy will be to cut ewe numbers to make it easier to hit the 50% cattle LU's trigger in the LFASS. This gives a big boost to LFASS income.
- Can see quite a lot of older producers using the SIP as a "semi-retiral" tool. Believe serious crofters will soak up some of the land and stock released by others.
- Strong point made that many crofters will ignore economics. They are part-time, small scale, lifestyle based and will keep going if their small enterprises "wash their face".
- In Western Isles it was suggested that sheep might replace cows and crops on the Machairs, so limiting the fall in sheep if the cows go.
- Importance of environmental schemes for cattle stressed. ESA reduces cost of silage making, which helps keep the cows which in turn keeps cropping on the Machairs which benefits the local environment.

Lerwick Feedback Session Comments - 11 June 2003

- Don't believe 45% fall in sheep - hill numbers much less than in-bye sheep.

- Some hills already up against LFASS minimum limit. But quite a few still above the minimum.
- What were numbers pre CAP? - were more cattle. But house cows – will not return.
- Maybe LFASS alone won't be enough to keep the sheep there (payment is too low).
- Loss of hill sheep has very little impact on output (but it is basis of the breeding pyramid).
- Shetland ewes - a reason for keeping the numbers up.
- Downturn in Shetland economy coming? - will push reliance on crofts up? Or lead to less investment.
- Believe in the "semi-retiral" scenario - older crofters wind down their business.
- Must have ability for large scale letting of land - free up crofting. But to get ESA payment they need to be official occupier and can only seasonally let.
- Not a big fall in finished lambs numbers (lambing percentages will increase).
- Having people to drive sheep is a critical bit.
- What will happen to prices across Europe. Supply/slaughter sector benefit from headage payments? Advantages not to producers.
- 17,000 ewes went out under ESA. Not same fall in sheep?
- If hill sheep fall, get better lambing percentages and heavier lambs.
- What abattoirs? - process more here?
- Feed price up?
- Cattle -
 - needed for LFASS
 - if cut sheep, could help them meet 50% cattle LU's
 - big capital cost
 - feeding cattle. 10-12 p/kg to put a beast to Aberdeen
 ∴ Advantage in local slaughtering.
- More folk feeding 1 or 2 cattle to slaughter for own use.
- Change in breed?

- Environmental - less sheep on hill can be an advantage.
- Whatever happens, want to keep Shetlands chunk of subs income (£6M).
- Perception is that subsidies are being done away with.
- Shetlands is different!
 - Few people are dependent on agriculture for their income. Some will ignore economic impacts - means less change.

What does Shetland Want?

- Free it up - not tied to chasing numbers.
- Look at other opportunities. Has become a rather narrow base. No encouragement to do anything different.
- Environmental diversity hit by cut in cattle/sheep mix = monoculture.
- Get consumer to pay more for food!
 - regulate inputs?
 - get people to buy local products.
- Support decoupling, but ↑ second pillar or LFASS or CAP Investment support, especially to keep cattle numbers up. (difficult if have a 2nd job and keep cattle).
- Environmental orgs need to study what mix of cattle/sheep needed for maximum environmental benefit.
- 3 elements:
 1. Decoupled payment - they want it but don't want to lose under modulation.
 2. Environmental support - want to keep the ESA!
 3. Support for infrastructure to market the products e.g. no cattle finishing if no abattoir.
- Could combine cattle capital investment and environmental support schemes.
- Environmental payments (ESA) subsidise the cost of making silage.
- Regional differences are critical - must measure this.

Shetland Abattoir Feasibility Study

**Draft Report on Capital and Operating Cost Estimates for a
Facility at Staneyhill, Lerwick**

A Report for Shetland Islands Council

November 2006

Prepared by;

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1. Introduction

The remit of this study is to provide a capital cost estimate and an indicative annual operating cost forecast for a new EU standard abattoir designed to process 20,000 sheep, 1,000 cattle and 1,000 pigs per annum. Chill capacity for 400 lambs and a number of cattle and pigs is also a requirement of the brief, as is lairage for 250 sheep and an unspecified number of cattle and pigs.

In practice a significant proportion of the total annual throughput may be processed in the autumn, given the highly seasonal availability of finished stock in Shetland. Therefore to achieve the target annual throughput, a facility with a significantly larger annual capacity is required. The plans and cost estimates in this report are fairly similar to those for a working UK facility which processes approximately 12 cattle and 60 to 80 sheep per hour using 7 to 8 slaughtermen. The plans provide chill space for 16 cattle and 400 lambs. The layout is relatively simple with internal lairage at one end for 250 sheep and high sided pens for a small number of cattle. There is a dedicated cattle line and a separate sheep and pig line with some shared and some separate elements. These lead to beef and sheep chills and a cutting/ storage/ despatch area. A small set of offices is located at one side of the building with hide, offal and blood facilities at the other. All of this is under one roof (38.5m x 15m). In addition there is an external refrigeration plant room, an external blood tank, effluent treatment plant and a covered entrance to the despatch area. Note that the covered despatch area and the effluent treatment plant are not shown on the plans at Appendices 1 and 2. The design of the abattoir reflects the location of the facility close to the mart, and hence the possibility of shared lairage, effluent treatment, offices, etc. The effluent treatment plant assumes the continuation of current practices for waste disposal in terms of incineration of unwanted offal and blood, plus specified offal transported in refrigerated containers for disposal at licensed premises in Scotland. The main thrust of the effluent plant is to remove solids from all washings (abattoir and lorry wash) so that the resulting liquid can be safely discharged to the public sewer. It is assumed that some amalgamation of the mart and abattoir filtration systems can be achieved. If significant dewatering of blood and offal was required (for example to reduce incineration charges) this would require higher capital expenditure.

Given the possibility of the need for more cutting/ further processing and chill capacity plus the introduction of freezing capability, we have included a separate costing for a 5m extension to the basic building.

Specialised internal equipment and fittings costs are based on quotes from suppliers. The major items (such as refrigeration and insulation) are based on competitive quotes from two contractors.

This report includes capital cost estimates for the different elements of the abattoir, our assumptions in making these estimates and a list of areas requiring clarification and further work which could have a major and as yet unclear impact on total cost. The capital cost section of the report finishes with an estimate of the total capital cost including a contingency for these unclear areas. This capital expenditure estimate is used to derive the rent used in the financial viability projection which follows. The margin

with and without rent is presented as are a number of sensitivity analyses. Very briefly, the report also covers alternatives to a fixed site abattoir and comparisons with other proposed abattoir developments in the Highlands.

2. Capital Cost Estimate

2.1. Assumptions

(i) All new facility and equipment. Costs could of course be reduced by sourcing second-hand equipment.

(ii) All abattoir equipment is costed, down to slaughtermens aprons and knives. However, cutting room/ further processing equipment is excluded as this will depend on the needs of individual operators and the types of product they intend to manufacture. Similarly no office or laboratory equipment is costed. Any external equipment such as a forklift or van is also excluded. Everyday skips for use on the site are included, but lorry skips for transporting waste are not included as these are usually supplied by the waste contractor.

(iii) Only basic office space is provided – one office for the manager and another for technical staff. If a separate vet/ MHS office is needed this would be an extra cost. Two WC's are included, but there may be a lack of separate locker/ changing room space for female staff. The overall assumption here is that the nearby mart can provide extra office accommodation. Also it is assumed that any operator will carry out administrative and sales work from their existing offices and not from the abattoir.

(iv) The costs assume that the site has stable subsoil and the site is relatively flat requiring a standard level of cut and refill.

(v) As stated earlier the cost of a 5m extension to the building and the extra internal work and equipment required to create a refrigerated store (blast freezer room for 4 or 5 pallets) and expanded chill and cutting space, has been costed as a separate item. The basic plan based on the brief did not allow for freezing.

(vi) The costs do not include aitch bone hanging hooks. This would have minimal cost impact as it is simply an alternative type of hook. The cost implication is that this practice is usually accompanied by extended hanging periods which may require an even greater extension of the chill area than is accommodated by the 5m building extension. Some small abattoirs have obtained this extra hanging space at low cost by hiring a chilled 40' truck unit.

(vii) No external lairage is included. The assumption is that the nearby mart could provide overnight covered holding pens or that stock are scheduled for delivery during the day of slaughter.

(viii) No site purchase and finance cost is included.

(ix) No operational set-up costs are included such as staff training, testing, certification, spares.

(x) All costs shown exclude VAT.

2.2. Capital Cost Estimate

The following are first estimates of the likely capital expenditure required for the proposed abattoir at Staneyhill. These are broken down into two main blocks; the costs of the structure and the costs of specialist equipment.

(a) External/ Structural (see Appendix 3 for detail)

	£
Substructure	102,129
Superstructure	315,928
Drainage Below Ground	18,150
Electrical Services	66,420
Heating, Plumbing, Ventilation	10,900
External Works	153,775
Effluent Treatment	63,000
Works Subtotal	730,302
Preliminaries 8%	58,424
Contingencies 5%	36,515
Overall Subtotal	825,241
Professional and Statutory Fees 12%	99,029
Total Estimated Cost of Building Works	924,270

(b) Internal and Equipment (see Appendix 4 for detail)

	£
Locker rooms, etc	5,450
Specialist Meat Equipment	142,340
Cattle Equipment	63,000
Sheep and Pigs Equipment	72,225
Installation of Specialist Equipment	65,000
Packing and Shipping	15,000
Services including Refrigeration, Insulation	348,700
Compressed Air, Washing, Sterilisation	40,180
General Equipment	32,440
Total Estimated Cost of Internal Works and Equipment	784,335

(c) Total for Abattoir as per Study Brief

	£
Total Estimated Cost of Building Works	924,270
Total Estimated Cost of Internal Works and Equipment	784,335
Total for Abattoir as per Study Brief	1,708,605

(d) Extra for 5m building extension including extended chill and cutting room plus addition of freezing facility.

	£
Structure	73,000
Internal and Equipment	80,000
Total	153,000

2.3. Areas Requiring Clarification/ Further Work

(i) Site Preparation Cost.

Our estimate assumes a standard level of site work to create a sound foundation for the abattoir and for vehicle movement. If the subsoil is unstable then this cost could increase. At the time of writing Craig Nicolson has just received the site survey and we believe it states that the site has an unstable peat subsoil down to perhaps 2.5m. The project team have not yet seen the report and detailed analysis of its implications will be required to assess the cost implication, but a quick assessment suggests this might add £100K to £200K to the total cost.

(ii) Access, hard standings and roads.

1300m² of concrete, including the floor area of the building, has been included in the costs to provide an apron around the facility. The creation of new roads for delivery or despatch has not been included. As with 1. above the full site survey will help identify if existing access needs strengthening or new access and hard standing is required. A whole set of decisions regarding the use of the site behind the mart are required.

(iii) External covered lairage.

As pointed out earlier this is not included in the estimate. Even if the mart provided this facility, a gated race would be required from the mart pens to the lairage inside the abattoir building.

(iv) Effluent Treatment.

We have included an estimate for an effluent treatment plant, but experience suggests that the actual extent of the facility required will depend on detail of the concentration of materials in the washings, etc and cost may change.

(v) Professional Fees.

Architect, engineer and quantity surveyor fees are included in the estimate as they relate directly to the building work, but other professional fees (including legal, environmental, effluent specialist) may be significant. It is not clear if these are a capital cost for the abattoir project or would be picked up elsewhere.

2.4. Capital Cost Conclusion

Given the need for imminent decisions by organisations such as the Shetland Development Trust, we need to make a first stab at the total project cost even although there are a number of major grey areas, as outlined above. A level of contingency is built into our building cost estimates, but a much larger contingency is required to cover the as yet undefined costs. The following is an estimate for discussion and then revision as more information becomes available.

	£
Total for Abattoir as per Study Brief	1,708,605
Extra for extended chill, cutting room and refrigeration	153,000
Contingency for Areas Requiring Clarification	300,000
Total Abattoir Capital Cost Estimate at this stage.	2,161,605

3. Financial Viability Assessment

3.1. Major Assumptions

- This viability assessment looks only at costs and returns of an abattoir, not the profitability of a business which also does further meat processing and marketing. This approach is adopted for a number of reasons. Firstly, it is essential to look at the abattoir investment decision separately because the alternative option for any meat processor using the new facility is to have the animals slaughtered elsewhere in Shetland, assuming one or more of the existing facilities remain in operation. Therefore, even if the facility is operated by a business which does a significant amount of further processing, for this assessment the income to the abattoir is taken as the slaughter charge which would be levied by a competitor (including an allowance for the cost of haulage to the competitor site). The only other income is the sale of hides. Secondly we understand that the facility could be used by more than one business, perhaps with slaughter and primary cutting done at the new abattoir and then transport to private facilities for further processing and packaging. This is the “Municipal Abattoir” model.
- Abattoir capital cost estimated at £2,160,000 (excluding site cost) for unit able to handle 20,000 lambs, 1,000 cattle and 1,000 pigs per annum.
- Abattoir business assumed to rent the facility at a rate based on 30 year write off of capital and interest.
- Given the municipal abattoir model, it is assumed that the livestock processed through the unit are owned by the individual meat processors/wholesalers. Therefore no interest charge is included for the working capital tied up in stock purchases.
- A major assumption, which has a very major impact on viability, is the availability of slaughtermen and butchers on a part-time basis over the year and their willingness to be paid a piece rate. It is assumed that the operator of the business can manage the abattoir side by allocating an average of only 2 days per week.
- The rates figure is very much a “guesstimate”. Guidance from the Council would be very useful.
- To cost an abattoir operation is a major task. The following is a rough estimate and must be treated with caution. Figures are based on knowledge of Laxfirth (including its published accounts) and through operating cost estimates for several small abattoirs around the Highlands. The aim is to get a headline feeling for viability.

3.2. Financial Projection

	£
OUTPUT	
Slaughter charges (incl. MLC levy):	
Lambs 20,000 @ £7.50	150,000
Cattle 1,000 @ £70	70,000
Pigs 1,000 @ £17	17,000
Hides. Lambs @ 70p, cattle @ £20	34,000
Total Output	271,000
COSTS	
MLC levy	19,020
QMS	1,500
MHS/Vet	14,000
Slaughter/ butchery labour on piece rate @ £3 per lamb, £15 per beast, £8 per pig	83,000
Management staff cost @ average 2 days per week @ £100	10,400
Consumables; ammunition, salt, chemicals	7,000
Rent based on 30 year capital and interest write-off (@ 8%) on £2,160,000 investment. Annual charge £192,240	192,240
Electricity	12,000
Water	4,000
Transport (hides, collecting consumables, waste to incinerator, SRM to port)	7,000
Rates	20,000
Insurances (contents, public liability, etc)	7,000
Office and admin including part time secretarial support	6,000
Property upkeep, cleaning, repairs	9,600
Waste disposal (blood, guts, SRM @ charge by weight – approx. £300 per 1,000 lambs at present)	8,000
Laboratory and other professional fees	2,400
Accountancy and legal	4,000
Staff training, certification, clothing	5,000
Total Costs	412,160
NET SLAUGHTERING MARGIN (LOSS)	(141,160)
MARGIN if no rent (at 30 year write-off rate)	51,080
Impact on margin, if;	
- throughput 10% less	- 12,698
- labour cost 10% higher	- 9,340
- abattoir has 20 year rather than 30 year write-off	- 28,080

3.3. Conclusions

- If the operator of a brand new abattoir at Staneyhill must carry a rent which covers the 30 year payback of its capital cost, then the figures above suggest it will make a substantial loss. If the facility is rent free then a profit of over £50,000 is expected, as long as the abattoir operates at full specification capacity (20,000 lambs, 1,000 cattle, 1,000 pigs). Note that in recent years slaughtering at existing Shetland abattoirs has increased slightly and we believe stands at around 5,000 sheep and 300 cattle (including imported cattle) per annum.
- Margin is highly sensitive to throughput. If less than target is achieved the losses mount rapidly. Conversely, higher throughputs would help the facility get closer to break-even. The assumption that piece rate labour can be found to operate the facility helps moderate this effect. Very roughly, **break-even throughput** (for a rent free scenario) is around 12,000 sheep, 600 cattle and 600 pigs (around **60%** of specified capacity for the abattoir).
- The capital cost of the facility, and how this reflects on the rent, is obviously a major issue.
- Central to this viability assessment are two assumptions. First is the decision by Shetland producers to finish a significant number of lambs and cattle and to send them to this abattoir rather than to sell store or to sell finished to another abattoir. Second is the assumption that a meat business attached to this abattoir can buy the stock and cover the loss on slaughtering from the profit it makes on further processing and marketing. To a great extent this is the position of the whole meat industry – slaughtering is a net cost/ break-even operation, but is essential to derive the product for the marketing and processing part which hopefully generates added value and overall profits.
- A lot of factors affect viability, but perhaps the key are;
 - Not having to pay the full cost of servicing the capital investment.
 - Finding an operator/user which adds a lot of value to the carcass/ maximizes use of the carcass, who can justify relatively high slaughter costs.
 - Successfully growing the business to use the facility to capacity and to pay prices which compete with other potential destinations for Shetland stock.

4. Comparisons and Alternatives

4.1. Alternatives; mobile abattoirs.

An alternative to a fixed abattoir which operates at full capacity for only a part of the year might be a mobile facility which travels to several sites. Canadian units are available and a large amount of work on mobile facilities has been carried out within the HIE area over the last couple of years. Indeed several studies have looked at mobile options throughout the UK over the years. It is strongly recommended that readers of this report look at the research reports available at www.hie.co.uk/meat-processing-research.html

For illustration the key statistics from a study into mobile abattoir options for the West Highlands are presented below.

	2 site mobile unit	3 site mobile unit
Capital Required	£1,290,875	£1,510,875
Capacity	2,530 cattle, 25,300 sheep	2,415 cattle, 24,150 sheep
Slaughter charge per head required including 10% profit margin	Cattle £87.61 Sheep £8.76	Cattle £102.30 Sheep £10.23
Annual running costs when fully operational (yr 5)	£463,606	£514,988
Level of capital investment subsidy	64%	64%

Key points;

- Mobile units plus their related docking sites are not cheap.
- In a very seasonal supply situation where everyone wants stock slaughtered in the autumn, it pays to have fewer sites at which the unit operates and hence less down time to ensure maximum throughput. The ultimate conclusion is that it is best to have a facility at one location alone which works flat out while the stock are available.
- The West Highland example has a much higher proportion of cattle, which inherently give a bigger margin.
- The required slaughter charges for sheep are competitive with major abattoirs, but those for cattle are not.
- In these examples the facility breaks even by year 5 when running at full capacity and as long as over 60% of the capital cost is written off by public sources.
- Apart from Northern Sweden and the trial of a prototype in 1993 by Hugh Fullerton-Smith, we believe a mobile abattoir has never operated within the EU. Rumours exist of a unit in Spain. The technology was approved by MAFF in the mid 1990's, but is untested against EU compliance regulations.

4.2. Comparisons

To help put the proposed Shetland abattoir in context, the key points of a couple of recent abattoir studies in the Highlands are described below.

Skye and Lochalsh Study

A 2005 study looked at the “Establishment of a Local Meat Supply Chain in Skye and Lochalsh”. A range of options were investigated. One was for a small abattoir with a cutting plant to process 3,500 sheep, 150 cattle and 100 pigs. Key costing results for the Skye plant were as follows;

	£
Total Capital Cost	894,530
Income	115,900
Operating costs	123,210
Profit (Loss) before finance charges	(7,310)
Finance charges (only on £223,500 privately funded over 20 yrs @ 7.5%)	22,350
Profit (Loss) after finance charges	(29,660)

Note that in this example the cutting plant by itself made a positive margin of £9,900 before, and £4,500 after, finance charges. It is the abattoir part which was expected to lose money.

Overall this study pointed toward the transport of stock to an established abattoir, and the return of carcasses followed by meat processing locally as the best option for adding value.

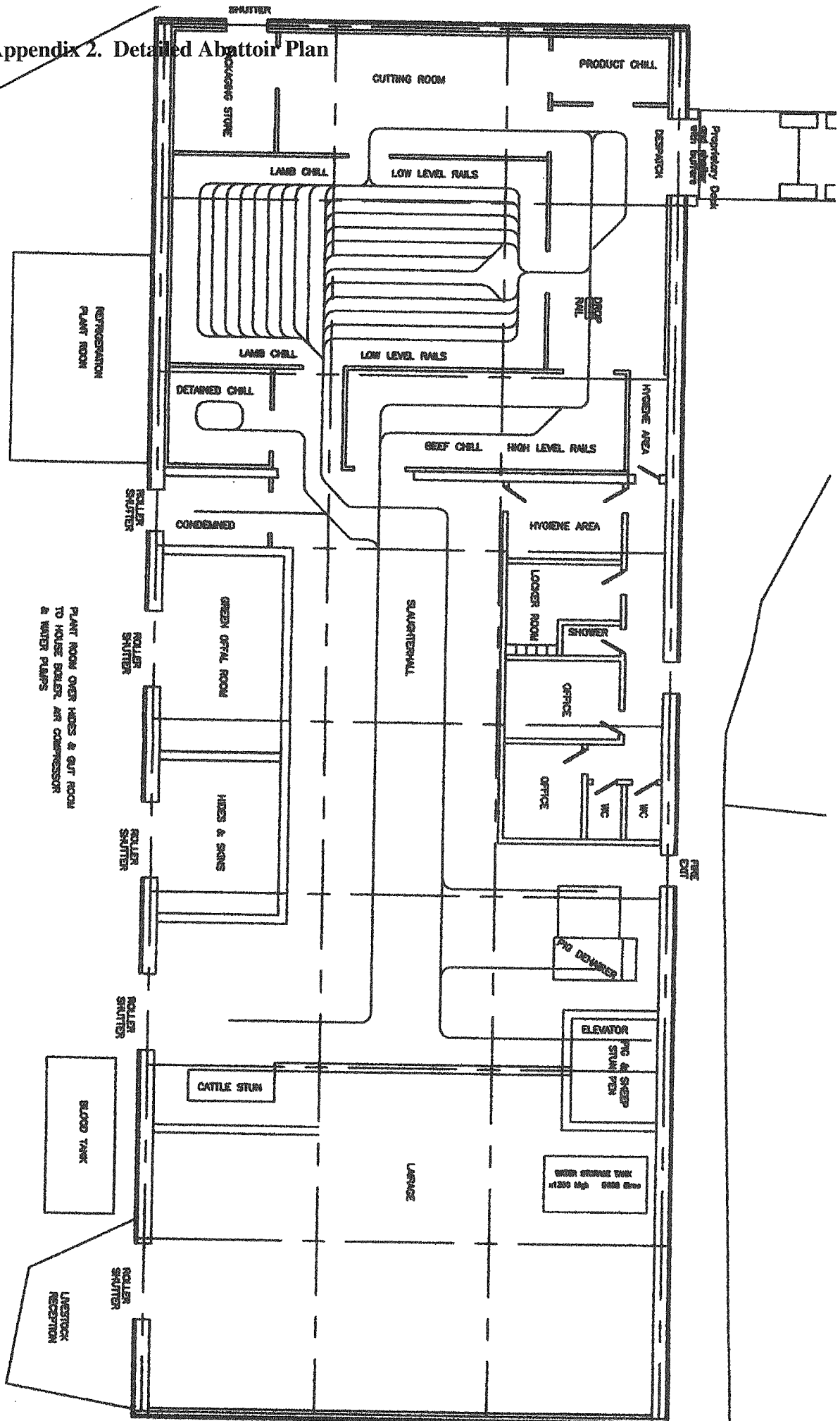
West Highland Study

The mobile abattoir study also looked at the possibility of a relatively low cost “modular” abattoir in one fixed location. This had a capital cost of £1,147,040. This is lower than a mobile unit with two or three docking stations. With a capacity for 4,025 cattle and 40,250 sheep it achieved a lower slaughter cost than mobile options (£62 cattle, £6 sheep). However, its capacity exceeds what the authors thought was the potential supply of finished stock (the potential supply being the number outwith the cost-effective range of other abattoirs). If it could not attract these stock its economics would be poor.

Appendix 1. Abattoir Site Maps

IN CAD FORMAT AND NOT AVAILABLE FOR THIS REPORT AND IS SUBJECT
TO CHANGE

Appendix 2. Detailed Abattoir Plan



SCALE 1:150

Appendix 3. Building Works Estimate

Proposed Abattoir at Gremista, Lerwick

Budget Cost - Options

Option 1

Building in originally proposed site as already reported, but reduce external yard from 1300 sq m to 1000 sq m	£	708,552
Allow for ground conditions revealed in survey - assume excavation to an average depth of 2.75m, upfill with compacted layers of fill and build off raft foundation.	£	72,947
Assume excavate to 1.5m below EGL under concrete apron and upfill in layers.	£	52,500
Allow for gates to link marts lairage to abattoir	£	5,000
	£	838,999
Preliminaries	8% £	67,120
	£	906,119
Contingencies	5% £	45,306
	£	951,425
Professional fees	12% £	114,171
	£	<u>1,065,596</u>

Option 2

Relocate to site next to existing Marts, assuming a reduction of a further 300sq m in area of external yard	£	686,802
Allow for ground conditions revealed in survey - assume excavation to an average depth of 1.25m, upfill with compacted layers of fill and build off raft foundation.	£	35,612
Assume excavate to 1.0m below EGL under concrete apron and upfill in layers.	£	41,550
	£	763,965
Preliminaries	8% £	61,117
	£	825,082
Contingencies	5% £	41,254
	£	866,336

Professional fees	12%	£	103,960
		£	<u>970,296</u>

Option 3

Relocate to new site elsewhere, assumed to be level and with good ground conditions - allow 1300 sq m yard, as before		£	730,302
Additional cost of Office space - assume 50sq m		£	30,000
Covered lairage - assume 200 sq m		£	60,000
Additional site servicing and sewage disposal costs, assuming absence of suitable public sewer - VERY approximate		£	<u>200,000</u>
		£	1,020,302
Preliminaries	8%	£	<u>81,624</u>
		£	1,101,926
Contingencies	5%	£	<u>55,096</u>
		£	1,157,023
Professional fees	12%	£	<u>138,843</u>
		£	<u>1,295,865</u>

Note *All of above costs include only for the original building with the refrigeration plant room and the vehicle loading bay but exclude the extra 5 metre building extension.*

29th November 2006

Appendix 4. Internal Works and Equipment Estimate

[illegible]

RAIL SUPPORT STEEL inc 50 stanchions			£47,000.00
MEAT RAILS inc bleed rails			£30,000.00
QUARTERING RAIL	1		£8,000.00
WEIGH SCALES	2		£16,000.00
ROLLER HOOKS	420		£11,340.00
			£142,340.00
CATTLE EQUIPMENT			
PISTOL	1		£400.00
STANDARD PEN	1		£17,000.00
BLEED HOIST	1		£3,000.00
BLEED ROLLERS & SHACKLES	3		£900.00
RODDER	1		£200.00
LEG CUTTER & STERILISER	1		£3,300.00
TRANSFER HOIST	1		£3,000.00
LEGGING STAND	1		£4,200.00
HIDE PULLING STANDS	2		£3,000.00
BRISKET SAW & STERILISER	1		£2,500.00
GUT HANDLING	1		£11,500.00
LEG SPREADERS	2		£6,000.00
CATTLE SPLITTING SAW & STERILISER	1		£4,500.00
SAW STAND	1		£3,500.00
			£63,000.00
SHEEP & PIGS			
STUNNERS	1		£3,000.00
BLEED ELEVATOR	1		£10,000.00
BLEED SHACKLES	15		£375.00
LEG CLIPPER & STERILISER			£3,200.00
FORELEG SYSTEM	1		£3,000.00
SHEEP CONVEYORS			£10,000.00
PELT PULLER	1		£9,000.00
BRISKET SHEAR & STERILISER	1		£2,000.00
SHEEP HOOKS	400		£2,000.00
PIG DEHAIRER			£20,000.00
PIG SAW			£4,500.00
PIG HOISTS			£5,000.00
PIG HOOKS	5		£150.00
			£72,225.00
INSTALLATION of SPECIALIST EQUIPMENT			£65,000.00
PACKING & SHIPPING			£15,000.00
SERVICES			
REFRIGERATION - GLYCOL			£180,000.00

HEAT RECOVERY			
THERMOGRAPHS			
CONDENSATE DRAINS			
INSULATION			£100,000.00
DOORS insulated/manual sliding	10		£37,000.00
DOORS personnel	10		£11,000.00
ROLLER SHUTTER DOORS	7		
FLAP CURTAINS	4		£600.00
FLY SCREENS			£1,500.00
DOCK SEALS & LEVELLER	1		£6,600.00
VENTILATION			£12,000.00
			£348,700.00
ELECTRICS			
LIGHTING			£0.00
SWITCH PANELS & FIELD WIRING			£0.00
PLUMBING			
PIPEWORK			£0.00
WATER PUMPS			£0.00
PRESSURE TANK & WATER SOFTENER			£0.00
WATER TANK (GRP) & SUPPORTS			£0.00
BOILER (oil or gas) & FLUE			£0.00
COMPRESSED AIR & PIPEWORK			£8,000.00
OIL STORAGE TANK			£500.00
HOSE REELS	3		£1,800.00
LAUNDRY			
BOOTWASH	4		£1,200.00
PRESSURE WASHER SYSTEM	1		£12,000.00
WASH GUNS	6		£360.00
WASH HAND BASINS	6		£1,800.00
APRON WASHERS	15		£5,250.00
KNIFE STERILISERS	15		£2,250.00
WASTE PUMP			
EQUIPMENT WASH	1		£500.00
INSECTOCUTERS	6		£2,400.00
DISPOSABLE TOWEL HOLDERS & BINS	18		£1,620.00
STERILISERS/WASH CABINETS			£1,500.00
VARIOUS			£1,000.00
			£40,180.00
GENERAL EQUIPMENT			
BLOOD PUMP			£3,000.00

OPTION TWO			
EXTRA PRICE TO PROVIDE FOR ONE ADDITIONAL 5M EXTENTION TO INCREASE THE LAIRAGE HOLDING CAPACITY			£17,000.00
OPTION THREE			
EXTRA PRICE FOR CHILLING 5M EXTENTION TO PROVIDE TWO LAMB CHILLS WITH LARGER CARCASE SPACINGS BUT NOT INCREASING THE SPECIFIED 400 LAMB TOTAL HOLDING CAPACITY			£52,000.00
OPTION FOUR			
EXTRA PRICE FOR CHILLING 5M EXTENTION TO PROVIDE A SECOND LAMB CHILL - EACH CHILL TO HAVE 400 LAMB HOLDING CAPACITY (inc 400 EXTRA HOOKS)			£79,000.00
OPTION FIVE			
EXTRA LOAD OUT DOOR FOR BOXED MEAT			£4,500.00
PLEASE NOTE THAT ALL THE EXTRA PRICES IN THE ABOVE FIVE OPTIONS INCLUDE FOR THE SPECIALIST EQUIPMENT ONLY - TO THIS SHOULD BE ADDED BUILDING COSTS INCLUDING DRAINAGE LIGHTING ETC EXTRA FIRST FLOOR OFFICE SPACE MAY ALSO BE REQUIRED			
AT PRESENT - DRAWING No6 IS REALLY DRAWING No5 BUT SHOWN IN A DIFFERENT LOCATION ALONGSIDE THE MART - IF THIS SITE BECOMES THE <i>PREFERRED SITE</i> THEN THE ABATTOIR LAYOUT WILL NEED TO BE MODIFIED TO SUIT ITS SURROUNDINGS AND COMPLY WITH VARIOUS OTHER REQUIREMENTS			

EQUIPMENT SCHEDULE

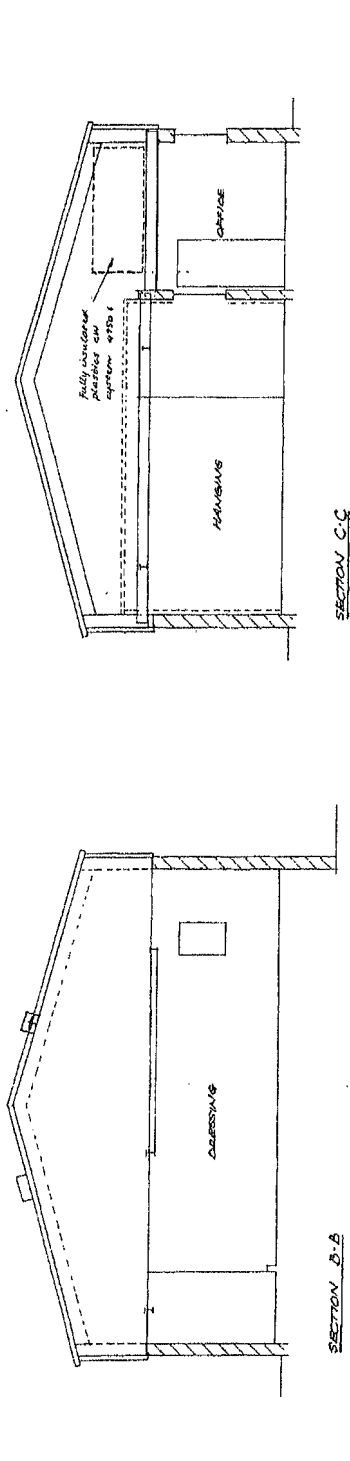
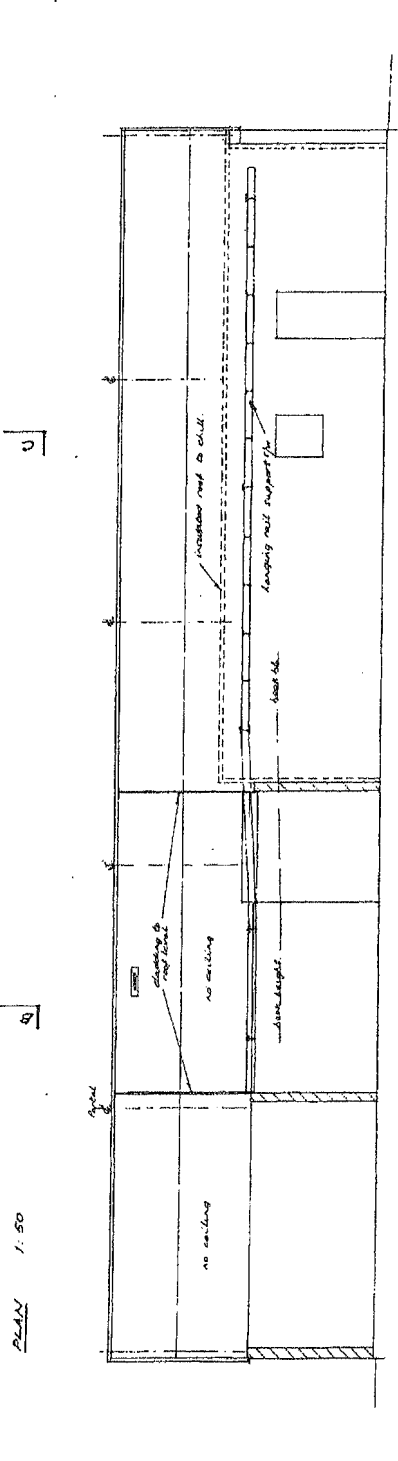
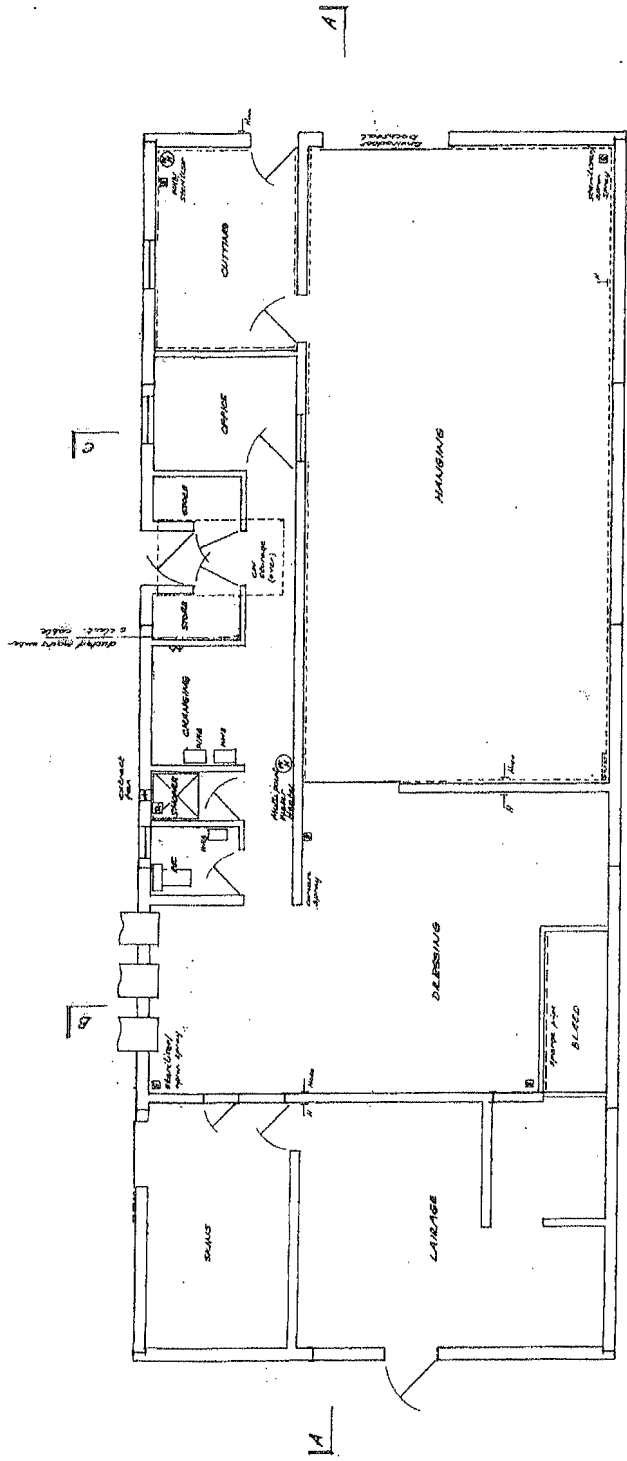
Room	Equipment	Notes/Comments	Qty
Entrance	Front counter, back counter, sign		1
Waiting	Seating (upholstered chairs)	See notes to plan	10
Office	Office furniture (desk, chair, etc.)	See notes to plan	1
Lobby	Reception desk, chairs, etc.	See notes to plan	1
Corridor	Wall paneling, doors, etc.	See notes to plan	1
Stores (200 sq ft)	Shelving, bins, etc.	See notes to plan	1
Changing	Lockers, benches, etc.	See notes to plan	1
Shower	Shower stalls, benches, etc.	See notes to plan	1
WC	Toilet stalls, sinks, etc.	See notes to plan	1
Hairdressing	Hairdressing chairs, mirrors, etc.	See notes to plan	1
Lounge	Seating, tables, etc.	See notes to plan	1
Shrine	Shrine furniture, etc.	See notes to plan	1
Stom	Stom furniture, etc.	See notes to plan	1
Dressing	Dressing chairs, mirrors, etc.	See notes to plan	1

Note: All dimensions to be finished for water services and placed in the relevant dimension statements. Type of plumbing and other to be approved before construction. All dimensions to be finished for water services and placed in the relevant dimension statements. Type of plumbing and other to be approved before construction.

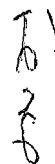
PETER A. GLANVILLE
 CHARTERED STRUCTURAL ENGINEER
 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 146, 147, 148, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 203, 204, 205, 206, 207, 208, 209, 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 228, 229, 230, 231, 232, 233, 234, 235, 236, 237, 238, 239, 240, 241, 242, 243, 244, 245, 246, 247, 248, 249, 250, 251, 252, 253, 254, 255, 256, 257, 258, 259, 260, 261, 262, 263, 264, 265, 266, 267, 268, 269, 270, 271, 272, 273, 274, 275, 276, 277, 278, 279, 280, 281, 282, 283, 284, 285, 286, 287, 288, 289, 290, 291, 292, 293, 294, 295, 296, 297, 298, 299, 300, 301, 302, 303, 304, 305, 306, 307, 308, 309, 310, 311, 312, 313, 314, 315, 316, 317, 318, 319, 320, 321, 322, 323, 324, 325, 326, 327, 328, 329, 330, 331, 332, 333, 334, 335, 336, 337, 338, 339, 340, 341, 342, 343, 344, 345, 346, 347, 348, 349, 350, 351, 352, 353, 354, 355, 356, 357, 358, 359, 360, 361, 362, 363, 364, 365, 366, 367, 368, 369, 370, 371, 372, 373, 374, 375, 376, 377, 378, 379, 380, 381, 382, 383, 384, 385, 386, 387, 388, 389, 390, 391, 392, 393, 394, 395, 396, 397, 398, 399, 400, 401, 402, 403, 404, 405, 406, 407, 408, 409, 410, 411, 412, 413, 414, 415, 416, 417, 418, 419, 420, 421, 422, 423, 424, 425, 426, 427, 428, 429, 430, 431, 432, 433, 434, 435, 436, 437, 438, 439, 440, 441, 442, 443, 444, 445, 446, 447, 448, 449, 450, 451, 452, 453, 454, 455, 456, 457, 458, 459, 460, 461, 462, 463, 464, 465, 466, 467, 468, 469, 470, 471, 472, 473, 474, 475, 476, 477, 478, 479, 480, 481, 482, 483, 484, 485, 486, 487, 488, 489, 490, 491, 492, 493, 494, 495, 496, 497, 498, 499, 500, 501, 502, 503, 504, 505, 506, 507, 508, 509, 510, 511, 512, 513, 514, 515, 516, 517, 518, 519, 520, 521, 522, 523, 524, 525, 526, 527, 528, 529, 530, 531, 532, 533, 534, 535, 536, 537, 538, 539, 540, 541, 542, 543, 544, 545, 546, 547, 548, 549, 550, 551, 552, 553, 554, 555, 556, 557, 558, 559, 560, 561, 562, 563, 564, 565, 566, 567, 568, 569, 570, 571, 572, 573, 574, 575, 576, 577, 578, 579, 580, 581, 582, 583, 584, 585, 586, 587, 588, 589, 590, 591, 592, 593, 594, 595, 596, 597, 598, 599, 600, 601, 602, 603, 604, 605, 606, 607, 608, 609, 610, 611, 612, 613, 614, 615, 616, 617, 618, 619, 620, 621, 622, 623, 624, 625, 626, 627, 628, 629, 630, 631, 632, 633, 634, 635, 636, 637, 638, 639, 640, 641, 642, 643, 644, 645, 646, 647, 648, 649, 650, 651, 652, 653, 654, 655, 656, 657, 658, 659, 660, 661, 662, 663, 664, 665, 666, 667, 668, 669, 670, 671, 672, 673, 674, 675, 676, 677, 678, 679, 680, 681, 682, 683, 684, 685, 686, 687, 688, 689, 690, 691, 692, 693, 694, 695, 696, 697, 698, 699, 700, 701, 702, 703, 704, 705, 706, 707, 708, 709, 710, 711, 712, 713, 714, 715, 716, 717, 718, 719, 720, 721, 722, 723, 724, 725, 726, 727, 728, 729, 730, 731, 732, 733, 734, 735, 736, 737, 738, 739, 740, 741, 742, 743, 744, 745, 746, 747, 748, 749, 750, 751, 752, 753, 754, 755, 756, 757, 758, 759, 760, 761, 762, 763, 764, 765, 766, 767, 768, 769, 770, 771, 772, 773, 774, 775, 776, 777, 778, 779, 780, 781, 782, 783, 784, 785, 786, 787, 788, 789, 790, 791, 792, 793, 794, 795, 796, 797, 798, 799, 800, 801, 802, 803, 804, 805, 806, 807, 808, 809, 810, 811, 812, 813, 814, 815, 816, 817, 818, 819, 820, 821, 822, 823, 824, 825, 826, 827, 828, 829, 830, 831, 832, 833, 834, 835, 836, 837, 838, 839, 840, 841, 842, 843, 844, 845, 846, 847, 848, 849, 850, 851, 852, 853, 854, 855, 856, 857, 858, 859, 860, 861, 862, 863, 864, 865, 866, 867, 868, 869, 870, 871, 872, 873, 874, 875, 876, 877, 878, 879, 880, 881, 882, 883, 884, 885, 886, 887, 888, 889, 890, 891, 892, 893, 894, 895, 896, 897, 898, 899, 900, 901, 902, 903, 904, 905, 906, 907, 908, 909, 910, 911, 912, 913, 914, 915, 916, 917, 918, 919, 920, 921, 922, 923, 924, 925, 926, 927, 928, 929, 930, 931, 932, 933, 934, 935, 936, 937, 938, 939, 940, 941, 942, 943, 944, 945, 946, 947, 948, 949, 950, 951, 952, 953, 954, 955, 956, 957, 958, 959, 960, 961, 962, 963, 964, 965, 966, 967, 968, 969, 970, 971, 972, 973, 974, 975, 976, 977, 978, 979, 980, 981, 982, 983, 984, 985, 986, 987, 988, 989, 990, 991, 992, 993, 994, 995, 996, 997, 998, 999, 1000

APPENDIX 4

THIRSMALL HEAT
 LARSENTH THIRSMALL
 ABATTOR THIRSMALL
 PLUMBING LAYOUT
 101.09



W. D. M.



242

PURE SHETLAND LAMB LTD. - 1158

**PROS AND CONS OF OPTION A
PROVIDING NO INVESTMENT**

PROS	CONS
<ol style="list-style-type: none"> 1. Allows time for industry and individual operators to prove the need for a new facility and present a fully informed business case demonstrating the need for new infrastructure without the need for immediate capital investment 2. Low risk to public finance 3. Low State Aid risk 	<ol style="list-style-type: none"> 1. Cattle slaughter will be constrained due to lack of co-operation in the industry 2. The existing facilities are in a condition which need upgraded and if these requirements are not addressed this may lead to non-compliance of licence conditions. There is the potential that the current operators will lose their licences 3. The on-going capital requirement to keep the facilities compliant will constrain the businesses as they do not have the necessary capital to invest 4. It will be difficult for high quality meat processing to be done in Shetland

**PROS AND CONS OF OPTION B
UPGRADING EXISTING SLAUGHTERING FACILITIES**

PROS	CONS
<ol style="list-style-type: none"> 1. Overall capital cost is approx £1.5m less than new facility 2. Operational cost will be less for the operator than a new facility 3. Allows existing operators to maintain their existing identity and continue trading 4. Upgrading facilities will enable the same throughput as a brand new facility 5. Operators will get their aspirations for improvements to their existing operations following full consultation 6. Gives industry time to build up throughput and strengthen their business without the encumbrance of the operational costs of a new facility 7. Meat Hygiene Services will be delighted to see the upgrade to facilities which have in the past been difficult to keep up to the required standards for their operator's license and are likely to be less stringent on overall compliance than if inspecting a new facility 8. The monopoly on cattle slaughter will cease (present charge £85 per animal) and the costs will be more in line with national average (£12-£17 per animal) 9. The cost associated to the upgrade could be recouped by a rent increase to the operators presenting a return on the investment 10. The operating costs will be more aligned to what the current operators costs and are less likely to need ongoing subsidy 	<ol style="list-style-type: none"> 1. There is the potential to inhibit the building of a Shetland brand if both operators focus on different markets to sell Shetland lamb and beef 2. Industry division will continue into the future 3. There may not be enough throughput capacity to sustain the businesses in the longer term 4. Space constraints at both existing facilities means that further investigation is required to ensure that the required upgrades can be physically achieved. This will be reliant on the availability of land 5. There is difficulty in ensuring equivalence of investment for each facility

SHETLAND DEVELOPMENT TRUST

SLAUGHTERHOUSE PROJECT

REVIEW OF STATE AID ISSUES

Introduction

- 1 Shetland Development Trust ("SDT") is currently evaluating a project for the construction of a new state of the art slaughterhouse to be constructed in Shetland.
- 2 SDT are currently evaluating three options for delivery of this project.
- 2.1 **Option 1:** funding is provided to SLMG (a cooperative company) by way of venture capital investment to enable SLMG to build a new slaughterhouse.
- 2.2 **Option 2:** SDT builds a new slaughterhouse as infrastructure for the common economic good of Shetland and, once constructed, secures an operator through a public tender process with the aim of securing an operator who will operate the new slaughterhouse with minimum subsidy from SDT.
- 2.3 **Option 3:** SDT builds a new slaughterhouse and through public tender secures an operator which will run the facility for the benefit of a community cooperative of agricultural producer members with the selected operator being paid an operation fee with the operator in turn paying a levy to SDT to cover maintenance and to provide a return on the initial investment.
- 3 Each of the options have advantages and disadvantages with regards to the agricultural market in Shetland. In addition, each of the options raises state aid compliance issues which must be examined.

State Aid Compliance

- 4 **Option 1:** in order for a direct investment in SLMG to provide the Slaughterhouse to be compatible with the common market for state aid purposes, SDT would have to demonstrate that this is an investment which a normal private market investor would make. This would be perceived to be a high risk investment and would therefore in the eyes of a private market investor, require high levels of return. Although it does appear to be anticipated that turnover and therefore profitability will increase over the short to medium terms as throughput increases, it is questionable whether a sufficiently significant high level of profitability will be achieved in order to provide sufficient return on the equity invested to meet the private market investor test. In addition, it is difficult to foresee how SDT could "exit" from this investment with a significant return on that investment. The availability of an exit is also an important criterion for any private market investor. Structuring the investment as redeemable preference shares (effectively disguised debt) would not assist as the level or return would also require to be significant in order to avoid the investment being treated as operational aid and therefore state aid incompatible with the common market.

- 5 **Option 3:** structuring the transaction in a manner whereby SDT pays an operator a fee to operate the facility with SDT receiving a levee (based either on turnover or on per head of animal basis) by way of return to cover maintenance and a return on capital invested, does appear to raise state aid concerns. The reason for this is that the proposed method of selection of operator looks at the operator rather than minimising the cost of operation. In this context, it is likely that the fee payable to the operator would be considered to be an operating aid and therefore state aid incompatible with the common market, notwithstanding the return levee which has the effect of reducing the level of subsidies.
- 6 **Option 2:** this option envisages SDT providing the slaughterhouse as a public infrastructure project – i.e. a project of general economic policy favouring the economy as a whole. In this context it is important to ensure that the slaughterhouse is available to all or any potential users on a non-discriminatory free access basis. With regard to procuring an operator, the tendering process would have to be constructed in such a way as to obtain competitive bids for the operation of the slaughterhouse with one of the key selection criteria being the operator who requires the least subsidy. To further ensure that the subsidy is kept at a minimum, the operators contract should also provide for the operator paying to SDT a fee calculated on turnover in excess of a certain level. The arrangements would need to be structured in such a way as there was (a) reasonable profit for the operator and (b) potential for real return to SDT thus effectively reducing the level of subsidy.
- 7 Provided this method of procuring the project is undertaken in the following manner then state aid risk should be minimised.
- 8 In terms of EC law, the *altmark* decision held that compensation for public services does not contain aid where four conditions are met:-
- The recipient undertaking must actually have public service obligations to discharge and those obligations must be clearly defined.
 - The parameters on the basis on which the compensation is calculated must be established both in advance and in an objective and transparent manner.
 - The compensation cannot exceed what is necessary to cover all or part of the cost incurred in the discharge of the public service obligations, taking into account the relevant receipts and the reasonable profit.
 - Where the undertaking is not chosen in a public procurement procedure, the level of compensation must be determined by a comparison with an analysis of the costs that a typical transport undertaking would incur (taking into account the receipts and the reasonable profit from discharging the obligations). (note – the *altmark* case concerned transport)
- 9 There are clearly a number of issues to be resolved here:-
- Is the provision of a slaughterhouse a public service obligation?

- A competitive tender seeking the lowest cost subsidy as a key criteria is essential in order to ensure that the compensation is determined in advance and in an objective and transparent manner.
- The imposition of a return for SDT after allowing for coverage of operating costs and reasonable profit seems to be the mechanism by which SDT can ensure that the compensation does not exceed that which is necessary to cover costs and a reasonable profit.
- Provided there is a public tender process, benchmarking the operating compensation against other comparable operations would not appear to be required.

Conclusions

10 The initial preliminary conclusions are as follows:-

- Options 1 and 3 are unlikely to avoid being treated as state aid incompatible with the common market.
- Option 2, provided it can be treated as falling within the scope of the *altmark* exemption, would appear capable of resulting in the project being outwith the scope of state aid.

Recommendation

11 In the current environment and with reference to the recent complaint concerning Sella Ness Pier Project, it is recommended that consideration being given to consulting closely with SEERAD and the Commission concerning the structuring of this project. If there is any view that option 2 might be borderline incompatible, then formal clearance from the Commission should be sought in order to avoid future challenge.

Brodies LLP
29 September 2006
Ref: RGM.SHE64.5

**PROS AND CONS OF OPTION C
BUILDING A NEW ABATTOIR FACILITY**

PROS	CONS
<ol style="list-style-type: none"> 1. New facility will meet the slaughtering needs for Shetland for many years to come 2. Forces co-operation within industry 3. Will allow the development of a Shetland meat processing industry and the value adding to meat products 4. With a new facility there is an impetus to encourage innovative thinking in the industry 5. A new facility is something that the industry will be proud of and can be a strong selling point for meat products. Buyers will be impressed by a new facility 6. Allows home kill through a facility which has the capacity to cope with the demand which is set to increase as the restrictions on home kill becomes tighter 7. If located next to the Marts it will provide an Agricultural Centre for the majority of related activities. Also, this location is beneficial for animals being bought at the Marts for slaughter as there is a reduction in "food miles" as there is no requirement for onward transportation of live animals 8. Shipping livestock is becoming more difficult thus potentially increasing the demand for slaughtering throughput on Shetland 	<ol style="list-style-type: none"> 1. A new facility will have much higher running costs than the present facilities and is likely to makes significant losses for the first 5 – 7 years. The facility will need subsidised which cannot be provided from public sector purse despite the expectation that SDT/SIC should provide subsidy given that they built the new facility 2. Massive capital outlay of £2.34m from SDT/SIC funds with no direct return on investment 3. One operator could enforce a monopoly on slaughter costs 4. State Aid concerns 5. Difficulties in shared ownership of facilities as it can only house one operator 6. Relies on sharing facilities with the Marts building which could cause conflict if operated by different organisations 7. The cost of slaughtering animal could increase to help cover the operational costs thus jeopardising development in the industry 8. If the industry cannot cooperate one or both of the existing operators could be forced to close 9. There could be difficulties in closing the existing slaughterhouses so that only one facility is operational. This has the potential of causing a "scandal" in the press and will be bad for the SDT/SIC's reputation



John Williamson
 Design Manager
 Shetland Islands Council
 Capital Programme Service
 Greenhead
 Lerwick
 Shetland
 ZE1 0PY

(via e-mail only)

Dear John

Re: Proposed new slaughterhouse

Further to my recent visit to the islands I attach a copy of the drawing (issue 2) and details below of the 'very' budget costings I presented. I have also included details of the budget contract slaughter costs we have seen over the last year.

Budget Costs

Area of proposed plant	1225 m ²	@ £1000 per m ²	say	£1,250,000
Effluent Plant				£250,000
External Yards , wash, etc				£250,000
Services– water, power, etc				£250,000
				<hr/> £2,000,000
Misc and Sundry		+ 10 %		£200,000
				<hr/> £2,200,000
Extra build cost due to location		+ 30 %		£660,000
				<hr/> £2,860,000
Prof Fees – Arch, QS, Struct.Eng, etc		+8 %		£228,800
Total				<hr/> £3,088,800

Please remember that this does not include any land or access roadway costs. The layout was based on the minimum amount of chill room space so if chill rooms were added this cost would be increased. Without knowing details it is difficult to give an estimate but I would not be surprised if the cost rose to between £3.5m - £4.0m.

During the meeting the typical cost of contract slaughter was also discussed so I have included some general notes covering this issue together with maturation, primal cutting and retail cutting.

I will ask our Technical Division to send you the "Blueprint" leaflets referred to at the end of the attached note.

Regards

John Goodman

Slaughter. Typical average costs of slaughter (indicative costs observed by MLC in various parts of the country).

Costs vary a great deal between plants, depending on their assets/structure, typical net cost of slaughter (without taking account of any offal credits), are as follows:

	Per head – range	Typical average
Cattle	£65 to 95	£80
Pigs	£10 to 18	£15
Sheep	£5 to 11	£9

With the following caveats:

- Producers will only pay the above charges if they are having animals killed for their own use (called contract or service slaughter).
- The actual charge they pay may be reduced by a fee for an offal credit e.g. to take account of the value of the hide or skin (if kept by the plant), but some plants may keep this (and sometimes the above charges are adjusted).
- It is estimated that less than 10% of stock are killed in Britain on a contract – service slaughter basis – many of these are on behalf of other abattoirs (e.g. a large abattoir uses a medium one as a seasonal slaughter overspill provider)
- Producers may also pay part of the above slaughter charge through the deductions that they may find on the total payment/invoice for the animal/service (e.g. for MLC levy, inspection, other veterinary fees, insurance etc – e.g. some Scottish plants also typically charge an additional slaughter fee of £10 to £20 on deadweight purchases)

Maturation. The cost of maturation will depend as to whether the carcass is matured whole (i.e. as a side or quarter of beef, side of pig or whole lamb), or whether it is matured as a vac pack primal (in which case the carcass has to be broken down as a boneless primal first and then vac packed – for this there is a labour and packing cost, but the subsequent cost of breaking the carcass down to retail cuts from the vac packed primals will be lower).

In economics terms the major cost of maturation is the ‘rental’ of the chiller space (that will include the other operational cost involved in running the chiller); this is the only cost if meat is hung as a carcass. This assumes that adequate chiller space exists (the problem for many smaller abattoirs and butchers is that such chiller space is at a premium). The cost of building new chillers into the structure of a building can be high, but with option of using mobile box chillers is frowned upon by the compliance authorities.

MLC has no information on what such an ‘indicative’ rental cost should be; in practice it will very much depend on the clients relationship with the plant owner and the details of the slaughter contract.

An important cost to the ‘owner’ of the carcass, is the weight loss that occurs to the carcass through evaporation and drip loss; the extent of which will depend, amongst other things, upon the time the carcass is hung (one of the advantages of maturing within a vac pack is the reduction in the weight loss per primal cut).

There are many factors that affect the rate of drip loss **see MLC information leaflet – the Shelf Life of Fresh Meat – contact MLC Technical Division**

Preparation. The cost of breaking down a carcass into cuts suitable for retail sale will depend upon the following main factors:

- The cutting specification e.g. the time required to prepare 'portion control' meat for catering usage can be much higher than preparing typical basic cuts for retail sale.
- The labour cost of butchery.
- The cost of packaging.
- The contribution towards other overhead/operational costs of the facility.

For any advice on the various methods of preparing meat for retail sale – contact MLC Marketing Services

Indicative costs are as follows; for preparing carcasses to typical basic retail specifications plus basic packaging;

Side of beef – from a 350 kg steer carcass – 10 man hours

Whole lamb - from a 18 kg lamb carcass - 1 man hour

Whole pig – from a 70kg pig carcass - 3 man hours

The man hours can vary depending on the skill of the butcher and the cutting specification.

Costs per man hour can vary from £10 an hour to up to £25 an hour for a skilled man (retired butchers or part timers may be prepared to work for less) – this will also depend on the nature of the work e.g. a one off job (e.g. for which a charge of £18 for a lamb is not untypical, or £60 for a pig), or a regular contract.

Preparation cost can also be reduced by adopting semi or full boning line practices (providing the space and staff allow), that would utilise less skilled staff to undertake some of the more basic tasks (even on small lines the use of automated equipment such as 'Carne Liberators' can significantly improve productivity when primal cutting).

MLC can provide further advice on any aspects of the above relating to cutting plant structures, equipment, practices and primal and retail packing, in all sizes of plant – *contact MLC Industry Consulting*

Meat quality. The principles of obtaining high quality meat (in appearance, eating quality and taste), from the production, slaughtering to meat preparation process are set out in the MLC leaflets – ***Blue Prints for Improved Consistent Quality Beef; Blueprint for Lean and Tender British Lamb; Blueprint for Quality Pork*** – ***contact MLC Technical Division.***

Introduction

The Shetland Island Council owns two slaughterhouses, one at Boddam and one at Laxfirth. These were built some time ago and subsequent changes in legislation means that the layouts no longer comply with the legislation.

From 1 January 2006 new EU food hygiene legislation has been applied throughout the EU. All premises slaughtering, cutting, processing or retailing meat and meat products are covered by these regulations. The new regulations replaced 17 directives, including eight relating specifically to meat. The new regulations of specific reference to the meat sector are:

852/2004 (known as H1) This regulation lays down general rules for food business operators (FBO's) on the production of all foodstuffs.

853/2004 (known as H2) This regulation lays down specific rules for food business operators on the production of food products of animal origin. e.g. meat, poultry, eggs, dairy and fish.

The new regulations clearly state the duty of the FBO and also introduces a new approach to food safety by including primary production (e.g. farmers). The regulation calls for a flexible HACCP (Hazard Analysis and Critical Control Point) based approach founded on HACCP principles and good practice. It is hoped that if an FBO is able to demonstrate that good hygiene controls and practices are in place, the level of official intervention and inspection will eventually be reduced.

The introduction of this new legislation means that both plants have had to be re-licensed and this has highlighted a number of problems with both the structure and layouts.

Following an initial visit to discuss meat production premises the Consulting department of the Agriculture and Horticulture Development Board meat services, (AHDBms) were commissioned to carry out an inspection of both plant to determine:

- the minimum work required and indicative costs to enable each plant to meet the current and future legislation.
- provide details of indicative costs for any improvements necessary to increase throughput and make the plants more efficient and profitable.

The second part requires a livestock production study to help with the question of stock availability. With a limited number of animals on the islands the possible expansion of the slaughtering capacity is also limited. Following discussions with the operators we have based this part of the study on their vision of the future, their knowledge of stock numbers on the island and their estimate of possible future throughputs. In both cases the suggested new throughput was double the existing.

Executive Comments

Both plants appear to be operated with commitment and to the highest standards that the site and equipment will allow. All the people I met were committed to producing the highest quality product and all took great pride in their profession.

Both plants are beginning to suffer from normal wear and tear and lack of investment – Boddam more so than Laxfirth, and both plants require work to be completed to bring them up to an acceptable standard.

It may be possible to obtain some derogation or relaxation of the rules, because of the island location, but it is likely that the customers will insist on the plants meeting the full EU standards.

Laxfirth Slaughterhouse

Operated by: Shetlands Livestock Marketing Group.
Date of visit: Tuesday 18th March
Contacts: Jim Budge
Lauraine Manson

Site Inspection

The plant is located to the north of Lerwick just to the east of the A970. Access to the plant from this main road is good but as the plant is built on sloping ground the vehicle access to the site is not level – this requires stock vehicles to access the site with caution to avoid animals falling. This is not a problem as only local farmers and local haulage drivers deliver stock and all are aware of the access slope.

The plant is constructed from infill panels located between an exposed galvanised steel framework. This exposed framework also supports the internal rail system and may result in increased refrigeration costs if “cold bridging” occurs between inner and outer steelwork. Because of the internal finishes it was not possible to inspect the internal framework during the inspection.

The internal finishes are in very good condition and there is little damage to the plastic wall lining. Internal damage can be a major problem where steel faced interlocking insulated panels are used because it is difficult to replace them. All personnel doors and frames are timber – this is acceptable if sealed and in good condition.

Although expansion to the rear of the site is limited due to the effluent system and the steeply sloping ground the plant has been built to one end of the site making expansion possible to the side and this option is investigated later in the report.

The manager reported that the plant has a full licence but the writer could only find “conditional” approval listed within the FSA records. This could be due to a delay in updating the FSA records.

There are a number of layout issues that need attention and these can also add to the operational problems of the plant i.e. knife sharpener located in the floor in the corridor. Listed below are the problems pointed out by the manager or identified by the writer during the inspection.

1. No unloading facilities for stock vehicles – unload pen, dock, etc. Due to the types of vehicles used on the islands the dock may not be necessary but an isolation pen near the entrance would be useful for injured or suspect stock.
2. Only unisex staff changing facilities.
3. No space for workshop facilities, knife sharpening, etc
4. No Mess room for staff.
5. No hygiene area between Lairage and Slaughterhall.

6. No restrainer within Stun Pen. "Rodeo" style stunning is often carried out with electrical stunning systems but is generally thought to be too dangerous when using a captive bolt.
7. Sticking position is not well defined and could lead to delays in sticking.
8. Blood goes to drain.
9. Insufficient office space for Vet / Meat inspectors.
10. The gravity slaughterline can result in touching carcasses (before inspection) unless managed correctly – this problem was not seen as the slaughterline was not being used during the inspection visit.
11. By-product chutes in slaughterhall appear to be too high for easy use.
12. Floor surface damaged in slaughterhall.
13. There is only one chill room – this may result in hot carcasses being mixed with chilled carcasses resulting in a temperature conflict and quality problems for both.
14. Small cutting room located off chill room. This is within the amenity block and has wooden door and window frames with glass windows. The temperature in this room was higher than the office !
15. Facilities for cutting, saw, etc. found within the Chill Room – it is not permitted to carry out a cutting operation within a storage area.
16. Detained cage used for general storage.
17. There is no separate floor drainage or drip collection tray in the detained cage.
18. The detained cage has solid sides extending to the floor thus preventing air circulation and effective chilling.
19. There is no despatch bay. The existing timber and wrought iron shelter is more suited to wrapped product and not suitable for unwrapped carcasses.
20. The despatch door and frame is made of poorly sealed, damaged timber.
21. The Effluent tank to rear of site cracked and leaking.
22. A Wash hand basin is located within Chill Room – not required.
23. The vehicle wash bay does not appear to be used - used as parking for van ?
24. The yard surfaces are in good condition but some minor damage needs attention.

These items would have also been noticed during the inspection by the Veterinary Meat Hygiene Advisor (VMHA) when carrying out the re-licensing visit. The VMHA would then judge if these problems are serious enough for the license to be withheld. If the problems can be overcome they would issue a "conditional" license and specify a date when the improvements must be completed and when the plant will be re-inspected.

To enable proposed improvements to be shown we have carried out a survey of the existing plant and this can be found in the drawing Annex reference A.

Proposed Improvements

The plant manager has a very good understanding of the problems and during discussions after the inspection it was obvious that her ideas and plans matched those of the writer.

As requested in the commission from the Shetland Islands Council we have firstly looked at the minimum improvement required to enable the plant to continue trading and secondly we have looked at the work required to increase production and provide a future for the plant.

Minimum Improvements

The plant is generally in good condition and is suffering because of lack of space and an initial layout that no longer meets the legislation. The current requirement of 853/2004 is to provide separate areas for each operation to ensure the risk of cross contamination is minimised. We should therefore have a separate temperature controlled cutting room and a despatch dock suitable for despatching both carcase and wrapped products. The existing cutting room could be hygienically fitted out and improved to provide temperature control and additional space. It would be good to provide a better slaughterline with additional staff and office space but the plant could continue as it is with the existing current throughput.

As a minimum a new despatch dock could be built onto the front of the existing chill room. It would have to be accessed from the side for two reasons:

- the sloping site would prevent vehicles from using the dock effectively
- long vehicles would have to use the road for manoeuvring space and would extend in to the road when docked

Estimated cost

Additional Cutting Room	12 m2	£1,100	£13,200
New Despatch Chill Room	16 m2	£900	£14,400
New Despatch Dock	12 m2	£1,100	£13,200
Sub total			£40,800
Total inc 25% extra for island working			£51,000

These costs are based on previous projects within mainland UK and we have added an additional 25% to cover island working. Because we have no knowledge of construction costs on the island we have not include the cost of levelling the site or surfacing the new yard.

Please see drawing B in the Annex for details of this proposal.

Full re-development

Because of the high costs of improvements and the high cost of providing a new access yard it is our belief that a much better option would be to increase the throughput and provide a plant better suited for the future.

Because of the uneven site the provision of the dock would be an expensive addition and there would be little point without increasing the throughput of the plant. To do this a number of new or improved facilities are needed:

- a mechanised slaughterline with mechanical punchers and a pelt puller
- a second chill room
- a cutting room with bone store
- a packaging store
- a despatch chill room for packaged product
- additional offices and amenities

Please see drawing C in the Annex for details of this proposal.

Estimated cost

Improved / New Slaughterline			£30,000
New Railed Chill Room	78 m2	£1,100	£85,800
New Cutting Room	42 m2	£1,100	£46,200
New Despatch Chill Room	44 m2	£900	£39,600
New Despatch Bay	16 m2	£1,100	£17,600
New Packaging store, amenities, offices, etc	112 m2	£650	£72800
Sub total			£292,000
Total inc 25% extra for island working			£365,000

Boddam Slaughterhouse

Operated by: Magnus Smith and associates.

Date of visit: Wednesday 19th March 2008

Contact: Magnus Smith

The plant is located at Boddam to the east of the A970. Access to the plant is good with various access road options from the A970. The plant is located on a section of raised level ground resulting in a steep access slope from the road to the yard level. This requires stock vehicles to access the site with caution to avoid animals falling. This is not a problem as only local farmers and local haulage drivers deliver stock and they all are aware of the access slope.

The original plant consists of three interconnected main rooms – lairage, slaughterhall and chill room and a small lean-to housing a WC and a plant room. A static caravan is located next to the plant and provides office accommodation and additional staff facilities.

The main structure of the plant is in good condition but the finishes are poor – e.g. flaking paint on walls. This is as a result of the operator being made to paint the walls white and he has now been told to leave them to flake off naturally.

Expansion of the plant is currently restricted by site limitations but the operator has already negotiated with his neighbour to obtain additional land for further development and to provide improved access.

The operator reported that the plant has a full licence but the writer could only find “conditional” approval listed within the FSA records. This could be due to a delay in updating the FSA records.

There are a number of layout issues that need attention and these can also add to the operational problems of the plant i.e. lack of cattle stun box. Listed below are the problems pointed out by the operator or identified by the writer during the inspection.

1. Site littered with unused or scrap equipment.
2. Yard surfaces not “finished” and new despatch dock bay dug out but not finished resulting in poor vehicle access.
3. A static caravan has been located next to plant to provide office space and staff amenities. Whilst this van provides the facilities it lacks the hygienic wall and floor finishes required within a food factory.
4. There are no stock unloading facilities – unload pens, dock, etc. Due to the types of vehicles used on the islands the dock may not be necessary but an unload pen and an isolation pen near the entrance would be useful for injured or suspect stock.
5. There is no restrainer for smalls in the stun pen. “Rodeo” style stunning is often carried out with electrical stunning systems but is generally thought to be too dangerous when using a captive bolt.

6. There is no elevator to smalls bleed rail – the operator explained that all stock are stunned with a captive bolt and the operator manually carries the carcase from the stun position and lifts it up to the bleed rail. This operation requires considerable physical strength (as the operator pointed out) and can result in strained muscles – check compliance with Manual Handling Operations Regulations 1992 as revised.
7. Homemade cattle stun pen – a commercial unit would provide safer and easier operation.
8. Blood to drain.
9. Homemade rail system - although it obviously works a commercial system would provide all the features for ease of use and safe working.
10. Floors generally in good condition – local repairs required.
11. The Chill room fitted with wall mounted rail allowing carcasses to contact wall – not permitted.
12. The Chill room contains processing equipment – mincers etc. further processing not permitted in storage areas.
13. All personnel doors and frames are timber – these are acceptable if sealed and in good condition.
14. All product is despatched directly from the chill room – not permitted even with dock seal.
15. Original despatch door still in position and plastic has been added in an attempt to seal / cover existing sliding door gear.

These items would have also been noticed during the inspection by the Veterinary Meat Hygiene Advisor (VMHA) when carrying out the re-licensing visit. The VMHA would then judge if these problems are serious enough for the license to be withheld. If the problems can be overcome they would issue a “conditional” license and specify a date when the improvements must be completed and when the plant will be re-inspected.

To enable proposed improvements to be shown we have carried out a survey of the existing plant and this can be found in the drawing Annex reference D.

Proposed Improvements

The plant operator has a very good understanding of the problems and during discussions after the inspection it was obvious that his ideas for improvements partly matched those of the writer.

As requested in the commission from the Shetland Islands Council we have firstly looked at the minimum improvement required to enable the plant to continue trading and secondly we have looked at the work required to increase production and provide a future for the plant.

In the case of Boddam this is difficult to sort out a “minimum solution” because there are so many problems needing immediate attention.

The main plant is almost unchanged since construction in the 1960's and major upgrading is needed to convert it into a modern food factory. The

problem areas identified during the inspection are listed above but as a minimum the following is required:

- hygienic and easily cleanable yard surfaces
- hygienic and easily cleanable amenities – the caravan is not acceptable
- hygienic route into the plant for staff and visitors via changing and hygiene areas
- a railed out chill room (not to be used for any other purpose)
- stunning facilities suitable for each species
- slaughterlines that reduce the amount of manual handling (and possible cross contamination)
- a hygienic route out of the slaughterhall for by-products

In our view there is no “minimum” upgrade possible to enable trading to continue and only a full upgrade to all areas would be acceptable.

Full re-development

The operator has already arranged for adjoining land to be made available for additional buildings and improved access. Based on the assumption that this land would be forthcoming we have produced a new layout to address all the shortcomings of the existing plant.

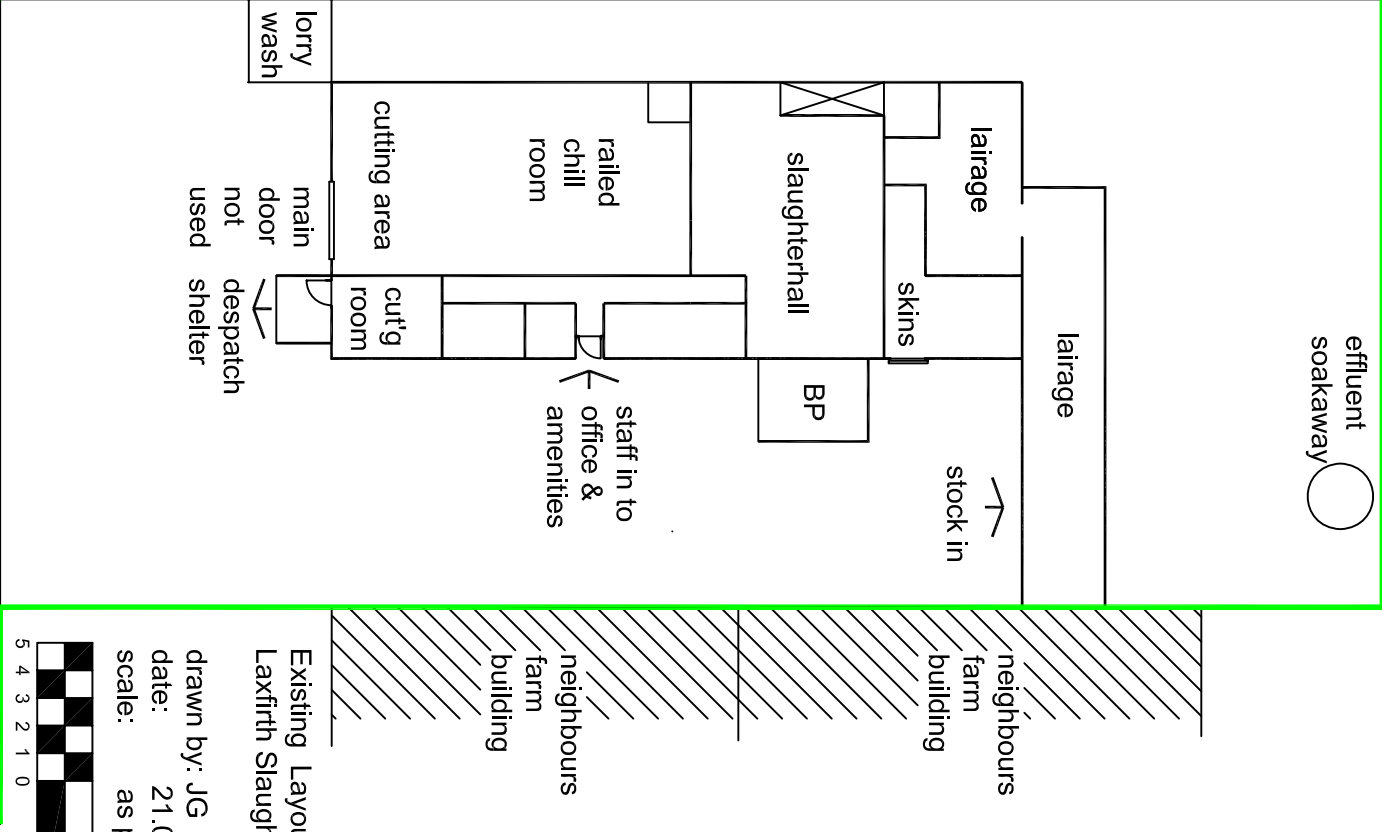
Please see drawing E in the Annex for details of this proposal.

Estimated cost

New Lairage	27 m2	£650	£17,550
New staff amenities	58 m2	£650	£37,700
New Slaughterhall	54 m2	£1,300	£70,200
New Railed Chill Room	45 m2	£1,100	£49,500
Refurnish & rail existing chill	52 m2	£1,000	£52,000
New Cutting Room	45 m2	£1,100	£49,500
New Despatch Dock and store	30 m2	£1,100	£33,000
Sub total			£309,450
Total inc 25% for island working			£386,812

Annex – Drawings

- A Existing Layout of Laxfirth
- B Proposed Minimum Improvements at Laxfirth
- C Proposed Full Improvements at Laxfirth
- D Existing layout of Boddam
- E Proposed Full Improvements at Boddam



effluent
soakaway

lairage

lairage

skins

slaughterhall

BP

stock
unload
dock

S/H and BP
staff in to
office &
amenities

railed
chill
room

cutting
room

de'ch
chill

carcase & packed
despatch dock

small despatch
bay for small
wagons and
vans

"dirty yard"

"clean yard"

lorry wash bay

neighbours
farm
building

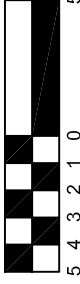
neighbours
farm
building

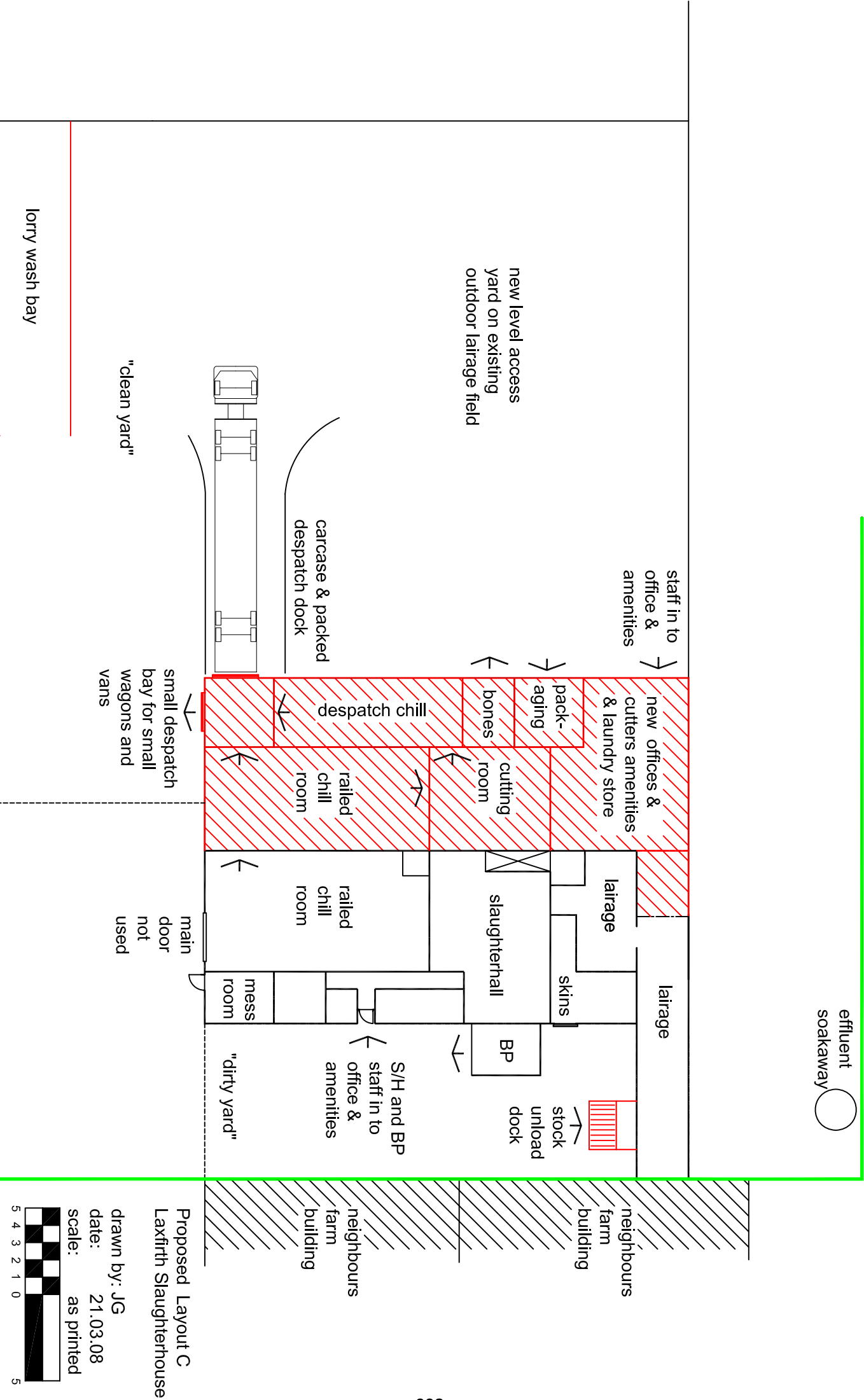
Proposed Layout B
Laxfirth Slaughterhouse

drawn by: JG

date: 21.03.08

scale: as printed



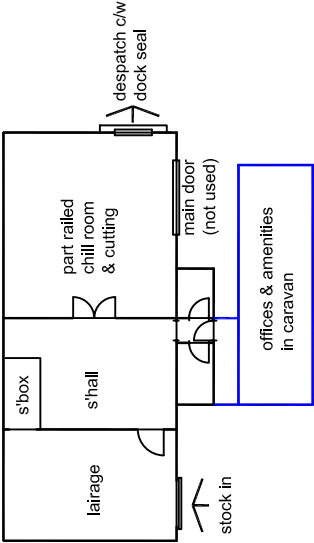


Proposed Layout C
Laxfirth Slaughterhouse

drawn by: JG
date: 21.03.08
scale: as printed

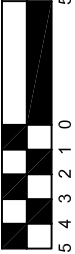
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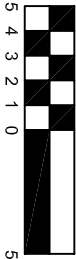
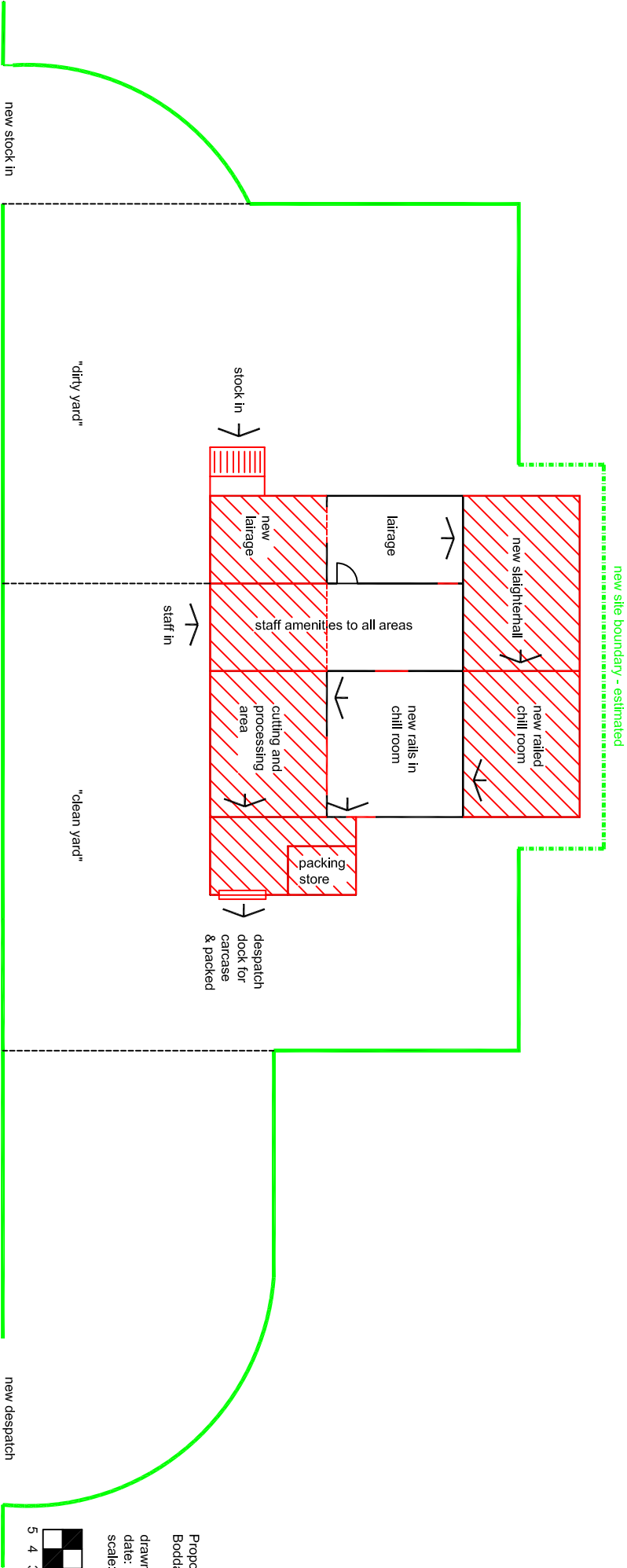
existing site boundary - estimated



Existing Layout D
Boddam Slaughterhouse

drawn by: JG
date: 21.03.08
scale: as printed





Proposed Layout E
Boddam Slaughterhouse
drawn by: JG
date: 21.03.08
scale: as printed

**Agriculture and
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