



REPORT

To: Development Committee

21 August 2008

From: European Officer

REPORT NO: DV035-F EUROPEAN FUNDING STREAMS

1.0 Introduction

- 1.1 The purpose of this report is to give Members an overview of European funding streams available and those most relevant to Shetland.

2.0 Link to Corporate Priorities

- 2.1 Maintaining links with Europe is a key component to achieving a Sustainable Economy as identified within Shetland Island Council's Corporate Plan 2008-2011. In particular, accessing European funds contributes to achieving the aims to:
- Encourage enterprise and sustainable growth; and
 - Expand knowledge and build skills.

3.0 Background

- 3.1 There is a plethora of European funding programmes in existence and the eligibility and application procedures vary greatly. As it would be impossible to provide an exhaustive list of every funding stream available, this report summarises the main grant funding programmes of benefit to Shetland. Although there are many different levels of programmes, the goals of the EU's Lisbon & Gothenburg Agendas - ie increasing jobs and employment and encouraging innovation - are common to many of the current programmes.

4.0 Regional Programmes

- 4.1 While regional programmes address local and regional challenges, overall they still need to meet or complement regional, national and EU priorities. However, regional programmes can offer more input into influencing distribution of funds through participation on regional/local management structures.

4.2 H&I's Convergence Programme 2007-2013

In the past, Shetland has been successful in attracting structural funds support towards projects by way of European Regional Development Funds (ERDF) and European Social Funds (ESF). In particular, ERDF has contributed greatly towards many infrastructure and capital projects.

The Highlands & Islands Convergence Programme 2007-2013 is likely to be the last significant structural funds programme for Scotland. Due to considerable reductions in funding, there is much less support available for infrastructure projects.

The current programme aims to address the EU's Lisbon and Gothenburg Agendas through encouraging innovation, growth and employment. ERDF funds will be targeted to support enhancing business competitiveness, commercialisation and innovation; enhancing key drivers of sustainable growth; and enhancing sustainable growth of peripheral and fragile communities. ESF funds will be targeted towards increasing the workforce; investing in the workforce; and improving access to lifelong learning.

The key industry sectors for support have been identified as: renewable energy; tourism and culture; food and drink; forestry; energy-related activities; and life/health (and other) sciences.

Councillor Alastair Cooper is Shetland's representative on the Programme Monitoring Committee which oversees the strategic direction of the programme.

4.3 LEADER Programme 2007-2013

LEADER, is an EU funded programme mainstreamed through the Scottish Rural Development Programme 2007-2013. It is aimed at promoting economic and community development within rural areas and encourages new and experimental approaches to rural development. A strategy and business plan for Shetland has been prepared and support will be aimed primarily at small-scale, community driven projects which are innovative in nature.

Shetland has been awarded a budget of £630,000 and still awaits an allocation from the Convergence fund which could see additional funds of around £1.4 million. A Local Action Group comprising representation from the public and private sector meets every six weeks to consider and make decisions on funding applications.

4.4 European Fisheries Fund (EFF) 2007-2013

The EFF will provide grant assistance to the fishing and aquaculture industry. The programme will target capital investment, processing and marketing, strategic trade initiatives, as well as Scottish Government and European Community policy initiatives for the sustainable development of fisheries.

The UK Operational Programme is currently with the European Commission for approval following the consultation process. Latest information is that the fund should be open by the end of the summer for applications. The H&I's has a budget of £12.4 million for the next 6 years.

The Scottish Government have yet to release details of the management committee which will oversee implementation of the EFF in Scotland. Shetland Islands Council have proposed that there should be a separate H&I's group given the ring-fenced nature of the funds and the effectiveness of such a group under the previous FIGG programme.

5.0 Co-operation Programmes

- 5.1 Co-operation programmes, otherwise known as Interreg, focus on collaboration projects between countries through cross-border, trans-national or inter-regional co-operation. This allows regions to co-operate on similar issues and concerns.

The programmes most relevant to Shetland are the trans-national programmes such as the North Sea Programme and the Northern Periphery Programme. In line with current EU priorities, innovation is a strong theme in all programmes. While it was common in previous programmes to fund projects such as studies, exchanges of experience, and the sharing of good practice, the Commission are now keen to see current programmes supporting projects with more tangible outcomes.

Projects are co-ordinated and led by a Lead Partner with contributions, both financial and staff time, from project partners. Lead Partner duties can be very onerous and often require a full-time commitment from a staff member. Project applications are invited through Calls for Proposals, usually twice a year. Shetland Islands Council also receives partner requests for projects, through formal and informal networks, which are distributed internally and externally to relevant parties.

6.0 Other Funding Programmes

- 6.1 The EU also provides funding in support of European policy aims. Generally these are the type of projects which are more effectively dealt with at a European, rather than a national or regional level. There are a large number and variety of programmes however they share a number of common elements.

Generally applications are sought by Calls for Proposals which are issued periodically in the EU's Official Journal and additionally through alerts to national bodies which are circulated throughout various EU networks. The number of calls per year varies for each programme and depends on the number of different themes contained therein, however the norm is one or two per year. The majority of projects have to involve partners from at least three Member States and results have to be made available to disseminate to others within the EU. Funding tends to be available for demonstrations, pilot actions and feasibility studies which the EU wants to encourage in pursuit of certain policy objectives, and 'soft measures' such as trans-national conferences or seminars, awareness-raising activities, exchanges of experience through networking of organisations etc.

- 6.2 The funds most relevant to Shetland are listed below. Some of these programmes are being considered for current projects.

Energy: The **Intelligent-Energy Europe** programme provides funding for projects to increase the use of renewable energy and reduce energy consumption. Funding will contribute towards capacity building, spreading of know-how, exchanges of experience, awareness raising. The programme does not fund "hardware" type investments, demonstration projects and technical R&D projects.

Transport: The **Marco Polo II** programme is aimed at projects which shift freight transport from the road to sea (and road to rail and inland waterways) resulting in fewer trucks on the road and thus less congestion, less pollution, and more reliable and efficient transport of goods. Only commercial undertakings are eligible to participate in this programme. The **Motorways of the Sea** programme is similar and has identified four sea corridors for support (two of which take in parts of the North Sea). Routes must involve at least two ports in two different Member States, primarily aimed at freight transport, although it is possible to combine the transport of persons and goods.

Culture: The **Culture 2007-2013** programme aims to encourage cultural cooperation within Europe through supporting the promotion of the trans-national mobility of people working in the cultural sector and the trans-national circulation of cultural and artistic works and products.

R&D: The **Seventh Framework Programme (FP7)** is the main funding programme for research activities in Europe. The 'Cooperation' strand of the programme funds activities in many thematic areas including energy, environment, fisheries and transport, while the 'Capacities' strand aims to enhance research and innovation capacities through optimising the use and development of research infrastructures and supporting the development of regional research-driven clusters.

Environment: The **LIFE+** programme focuses on the implementation, updating and development of EU environmental policy, whilst also contributing to sustainable development. At least 80% of the LIFE+ budget is allocated to Member States for defining a national work programme.

Education, Training and Youth: The EU's **Lifelong Learning** programme consists of several sub-programmes such as Comenius, Erasmus, and Leonardo da Vinci, which exist to support education, life-long learning and training activities. Shetland has in the past benefited from a variety of these funding streams.

7.0 Financial Implications

7.1 There are no direct financial implications arising from this report.

8.0 Policy & Delegated Authority

8.1 This report is relevant to three of the aims within the Main Aim of 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.

8.2 In accordance with Section 11.0 of the Council's Scheme of Delegation, 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

8.3 As this is an information report, there is no requirement for a decision to be made.

9.0 Summary

- 9.1 This report has attempted to summarise some of the main European funding streams of benefit to Shetland.
- 9.2 The regional programmes, as described under Section 4, are probably of most benefit to Shetland since they are primarily focussed on local and regional issues and offer more direct access to funds with less complicated application procedures. Having representation on local and regional management structures gives an opportunity to influence the strategic direction of funds.
- 9.3 The cooperation funds can offer good opportunities to cooperate with regions to address similar problems and concerns however there is less scope to tailor projects to individual outcomes and participation in projects can be quite time-consuming.
- 9.4 The wider European funding programmes tend to be targeted at supporting wider European policy aims in cooperation with other Member States.
- 9.5 When examining project proposals, attempts are made to consider any external sources of funds which may be appropriate.

10.0 Recommendation

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

Our Ref: SJS/R4/10/6
Date: 29 July 2008

Report No: DV035-F



REPORT

To: Development Committee

21 August 2008

From: Head of Business Development

DV040-F **Overview of Shetland Renewable Energy Projects**

1.0 Introduction

- 1.1 This report aims to provide Councillors with a broad picture of renewable energy projects that are being developed in Shetland. It highlights areas where an established renewable energy sector can stimulate economic development in Shetland, reduce carbon emissions and fuel poverty throughout Shetland. The report also identifies where Shetland can become more self sufficient in energy supply and reduce the dependency on imported energy.

2.0 Links to Corporate Priorities

- 2.1 The corporate plan contains a number of policies that relate to the subjects discussed in this report, specifically:

2.1.1 Priority Areas:

- We will be world renowned for being clean and green islands, decreasing our CO2 emissions by 30% by 2020

2.1.2 Sustainable Economy: Renewable Energy

- Seek to support the case for establishing a fixed interconnector to the UK mainland by 2012
- Seek to provide support in developing Viking Energy's proposals to the submission of the Electricity Act application.
- Support 2 renewable energy projects in the marine environment and 4 in the terrestrial environment.
- Consolidate the PURE hydrogen project in Unst and the integration of low-energy technology in local building standards for business projects.

- 2.1.3 **Sustainable Environment & Transport:** sustainable use of resources
- Reduce CO2 emissions from Council buildings and Council energy use by 6% by 2011.
 - Progress a wind turbine project to seek to turn wind power into electricity, heat and hydrogen.
- 2.1.4 **Sustainable Society:** Deprivation and Social Exclusion
- Reduce the number of households experiencing fuel poverty by targeting grant assistance, education and advice to those people most likely to be living in fuel poverty and campaigning for the control of fuel costs for those on lowest income.
- 2.1.5 **Sustainable Organisation:** Living Within Our Means
- Ensure that services do not overspend their annual revenue budgets

3.0 Background

- 3.1 An industry panel was held in March 2008, which discussed renewable energy in Shetland and, at the end of what was an enthusiastic discussion, it was recommended that the Economic Development Unit present a report to Council to inform Members of the renewable energy projects being undertaken in Shetland and future development opportunities Shetland. This will be a first stage in working towards a renewable energy strategy for Shetland, that industry are willing to buy into, and the Council and public agencies are willing to support.
- 3.2 The field of renewable energy covers many different issues and is very topical and widely discussed at all levels from scientists and governments, to daily headlines in the news and the householder that is being directly affected by rising energy and fuel costs. The potential impact of global warming has led to targets being set by Governments to reduce levels of CO2 and greenhouse gas emission. The Scottish, UK and EU all have targets that they are aiming to meet. There are also other issues such as the security of energy supply, the rising cost of fuel and heating oil, the UK now becoming a net importer of gas and an increase in fuel poverty throughout the UK. Rural areas such as Shetland, at the end of the fuel chain and with a harsh climate will be among the hardest hit by the rising cost of energy. This report should be considered as an overview of the main areas of renewable energy development in Shetland.
- 3.3 Scottish and Southern Energy plc (SSE) are also about to conduct a review of Shetland's generation and distribution network which stakeholders will be consulted on during the autumn of 2008. SSE is conducting this review that will be taking into account potential developments in renewable energy production and how these can be better accommodated into the Shetland grid. This will feed into their investment plan for electricity distribution networks in Shetland 2010 – 2015.

4.0 Overview of Renewable Energy Projects Being Developed

4.1 Wind to Heat Projects

- 4.1.1 Over the last 3 years a programme of community led renewable wind to heat projects have been installed throughout Shetland. These mostly consisted of a 6kW proven wind turbine supplying heating to community halls. The project also addressed energy efficiency measures to reduce heat loss. Ten halls were funded along with the Unst Heritage Centre and Livister Youth Centre. The direct benefits to those public halls include a building that is warm to come into, this in turn has increased the usage of the buildings and lowered running costs with reduced heating bills. Having the public halls running on renewable energy has meant that a lot of people have been able to benefit and see the technology working reliably and have had hands on experience of operating a wind to heat scheme.
- 4.1.2 It is hoped that as well as savings, some income can be generated from renewable obligation certificates for the halls. This has been delayed until some technical issues are resolved which will allow the systems to meet Ofgems requirements for claiming Renewable Obligation Certificates (ROCs). This is being looked at with some additional equipment to be installed that will resolve these issues. This will be addressed over the next 12 months.
- 4.1.3 These projects were piloted in Shetland and Orkney and the majority of funding came from sources outside of Shetland. The total funding package came from the Highlands and Islands Community Energy Unit, some of the Halls own funds and SIC Economic Development Unit and Community Development. Their success has been widely recognised and many more similar projects are being developed over Scotland.
- 4.1.4 The difficulties in obtaining grid connections in Shetland led to the thinking that the wind power could be used to directly provide heating. There is a natural correlation in that when it is windy is generally the time when a building requires more heating.
- 4.1.5 A great deal was learned from these first projects and a number of different heating methods were installed; including electric storage heating, air ducted heating to wet systems where an insulated tank of water is heated, providing a thermal store of wind energy. (These are installed in the Fetlar and Skerries community halls.)
- 4.1.6 Each installation has been generating between 18-26,500 kW/hrs of electricity per annum, representing an electricity supply value of around £1,200 - £1,590 per annum. It is hoped

another £800-£1000 can be gained from ROCs once this issue is resolved. It may be that small schemes under 50kW will qualify for double ROCs, this puts the income up to around £1600 – £2,400 pa. Each project saves 13 tonnes of carbon pa, so approximately 132 tonnes for phase 1.

- 4.1.7 The pilot phase attracted ERDF 35%, HICEC/SCHRI 49%, SIC/EDU 8% and the local community 8%. Approximately £300k came from external sources. The next phase won't have ERDF but there is still significant external funding available for these projects.
- 4.1.8 In the early stages of the developments there were delays in obtaining planning permission. Both planners and community groups were new to such installations. It has been recognised that these small turbines appropriately sited have a minimal impact. Many of the planning issues that were leading to delays have been resolved whilst working through the first 12 projects and this process appears to have improved.
- 4.1.9 The other benefit has been in local employment. Shetland Windpower Ltd, the local installer for the Shetland project have now expanded their business to include a depot on Mainland Scotland and are now competing for work in other areas of Scotland. They have gained a very good track record from installing equipment in one of the UK's most challenging wind regimes.

4.2 Future Wind to Heat Projects

- 4.2.1 The success of the pilot scheme has led to a large number of projects coming forward to look at providing heat to their buildings from renewable energy. A number of community halls, heritage centres and some of the Amenity Trust buildings are looking at a means of reducing revenue costs and benefiting from green energy.
- 4.2.2 There are funding opportunities at the moment for community projects through the Highlands and Islands Community Energy Unit and other bodies. With funding available, it is an appropriate time to be looking at investing in these types of community projects. When totalled up this is a significant level of capital works.
- 4.2.3 There has been interest from 39 such projects and a number of these could go ahead over a 3 to 5 year programme, while funding is available. These projects are from nearly all districts in Shetland and cover a range of technologies, including wind turbines, heat pumps, solar water heating and micro hydro.

4.3 Fair Isle and Foula Electricity Schemes

- 4.3.1 Still heralded worldwide at conferences, these schemes were the first community electricity schemes to use a distribution grid with the major source of power being from renewable energy sources.
- 4.3.2 The Foula Electricity Trust will soon be commissioning phase 1 of the new scheme, which will supply the island with 24hr power for the first time. The scheme incorporates micro hydro, solar power, storage in batteries and diesel. Phase 1 has seen new transformers throughout the grid, new consumer units in buildings, a new control system and a new source of hydro power from a pipeline extension to the existing hydro scheme.
- 4.3.3 The original design for the scheme was to incorporate about 75kW of wind energy. Due to time constraints on obtaining planning permission and deadlines for securing funding the scheme had to be split into two phases. To make the Foula scheme fully sustainable it requires wind energy.
- 4.3.4 Further bird study work is underway on the island to assess potential sites for wind turbines; the community are fully behind the reintroduction of wind power. With wind energy on the island the cost of electricity can be maintained at an affordable level and income from ROCs can help sustain the maintenance and operational costs of the scheme, as happens in Fair Isle and other island schemes such as Eigg. Bids for Funding are being prepared for phase 2 of the scheme at the moment and planning permission is hoped to be in place within the next 6 months. The Foula Electricity Trust is working closely with SNH and RSPB in making sure all the required bird data and environmental information is in place before a planning application is submitted.
- 4.3.5 It may be the case on Foula, due to the islands high level of bird designation, that some locations for wind turbines on the island may require seasonal shutdown, during the breeding season. The aim is to have three 15 kW machines located at the South Ness on Foula, these are similar in size to the one at Sandwich Social Club. Another two 15kW machines at the Heights, the north end of the island and possible two smaller 6 kW machines near the Foula school. It is estimated phase 2 of Foula will be £400k. Funding will be sought from Lottery, HICEC and the Council at this stage.

4.4 Fair Isle Electricity Company (FIEC)

- 4.4.1 Fair Isle has successfully operated their renewable energy scheme since 1982. The island benefits from about 85% of its energy coming from wind power in the winter and 50% in the

summer. It has not been without its problems over the years and at the moment the wind turbines are in need of some refurbishment. Fair Isle have been watching progress on the next generation schemes of Eigg and Foula and FIEC intend to investigate energy storage for the Fair Isle system and the possibility of 24 hour power, as is installed in Eigg and Foula. In the short term there will be some upgrading of control gear and replacement of a gearbox and alternator. The Fair Isle Electricity Company are also looking ahead to when their wind turbines will need to be replaced. It is important to keep these highly innovative island schemes abreast of new advances in technology.

4.5 Larger scale Community and Wind to Heat Projects

- 4.5.1 North Yell Development Council (NYDC) have plans for a small community windfarm near Cullivoe. The aim being that income generated from the scheme would be used to stimulate economic activity in North Yell and encourage more people to live and work in the area.
- 4.5.2 The NYDC have undertaken wind monitoring to allow the development of a business model. They are currently undertaking environmental studies, which will feed into the planning process.
- 4.5.3 At present constraints on the Shetland grid will not allow a firm connection to the grid, these are issues that will be brought up with SSE in their review of the Shetland grid. The University of Flensburg spent a number of weeks in the North Isles and looked at making the Cullivoe project less grid dependent and the possibilities of making the scheme a wind to heat project as in the case of the community halls. It was felt that there wasn't enough load in the Cullivoe area to support the scale of project they are looking at, independent of the grid.
- 4.5.4 NYDC are aiming to obtain planning permission in the short term and look at the outcome of the review, if an interconnector came along with Viking Energy this could possibly allow a connection for the North Yell project.

4.6 Mid Yell Wind to Heat

- 4.6.1 Mid Yell has been identified as a good place to look at developing a wind to heat scheme with district heating. A number of parties came together with similar aims, to save on revenue costs, develop a renewable energy project, save on CO2 emissions and reduce the level of fuel poverty in the community, also to help generate a more sustainable community.
- 4.6.2 Mid Yell could become a pilot project for a large-scale wind to heat scheme with a district heating system. The University of

Flensburg in their work identified Mid Yell as having the size of heating load that would suit a wind to heat system. The Council had already been looking at such possibilities of alternative heat sources for their Leisure Centres and public buildings. Mid Yell had a number of sizeable buildings requiring oil heating and a new school was in the design phase. The Mid Yell Community Development group at the same time approached the Council and HICEC with plans to develop a community wind project on the same lines as North Yell, but with a wind to heat model.

- 4.6.3 Consultants Cowi from Denmark won a tender to conduct a feasibility study for a district heating scheme, looking at Combined Heat and Power and wind power. Cowi had designed the Lerwick district heating scheme. The Leisure Centre in Mid Yell already has existing boilers, which can act as an oil backup and has sufficient capacity to provide heat for the mini district heating scheme. A hot water storage tank could be used to allow for cover when wind energy is low, this is also usually when demand for heating is low. The result of the feasibility study will be due in September.
- 4.6.4 The benefits of a mini district heating scheme would be reduced running costs for all customers who are at present on oil heating. These revenue savings and money paid for heat will remain in the Shetland economy. There will be a reduction in CO2 emissions with reduced usage of oil. The project will through ROCs generate income for the community.
- 4.6.5 The Mid Yell project could be replicated in several other communities in Shetland. Aith, Brae, Sandwick, Scalloway, Symbister, Baltasound all have similar clusters of buildings that are being hit hard by increasing energy costs. If successful the Council could adopt this model as a means of becoming more self sufficient in energy production, making significant revenue savings and reducing CO2 emissions helping meet Government targets.

4.7 Energy Recovery Plant & Lerwick District Heating

- 4.7.1 All of the projects so far discussed have been in rural areas. Shetland's hub for waste disposal and recycling is based in Lerwick at the Greenhead base. The waste incinerator provides heat to the Lerwick district heating scheme, which now has over 400 customers.
- 4.7.2 Increases in electricity costs for the running of the waste incinerator plant led to the Council and SHEAP to look if there was a more cost effective means of supplying power. At the same time Lerwick district heating scheme is reaching capacity and is looking for additional sources of heat. The result was to look at the possibility of supplying electricity from wind power to run the incinerator and recycling plant. Excess power would go

into supplying heat to the district heating scheme and surplus in times of low heating demand could be used to produce hydrogen. An insulated tank would be used for storing hot water and assist with peak loads and times when there is low wind. There would ultimately be backup for the incinerator from the grid but an element of electricity storage would be incorporated into the grid to maximise the use of wind power and to allow smooth transition in the case of reverting to the grid.

- 4.7.3 This is a highly innovative project which could generate significant revenue savings on running the waste recycling and energy recovery plant. Reduce CO2 emissions, an increase in the capacity of the district heating plant in turn reducing fuel poverty in Lerwick. Importantly revenue from the sale of heat remains in the Shetland economy.
- 4.7.4 Shetland becomes more self sufficient in energy supply.
- 4.7.5 The estimated cost of the scheme would be £3 million. There are a number of UK, Scottish Government and EU funding schemes it is hoped this project will qualify for. Due to its highly innovative nature, it is thought the project will attract a lot of interest from around the world.

4.8 Hjaltland Housing Association + Hydrogen

- 4.8.1 Hjaltland Housing Association has been granted planning permission to erect two “unplugged houses” in Eshaness. Detailed design work is on-going but it is hoped that builders will be on site later in 2008.
- 4.8.2 Hjaltland Housing Association are in partnership with the PURE Energy Centre in Unst who are UK leaders in hydrogen technology. When built these will be the world’s first unplugged hydrogen houses. The project will first build two combined heat and power systems, which will be based on state of the art hydrogen fuel cell technology. It will then see the development of a renewable hydrogen scheme at the house site. A final stage would be to add a refuelling station for renewable hydrogen, which can be matched with a hydrogen vehicle, this would demonstrate a complete ‘personal clean energy’ solution to the householder. The project is being supported by the Scottish Executive Renewable Hydrogen and Fuel Cell Scheme.
- 4.8.3 This project demonstrates a renewable solution for a domestic property. If this proves successful the aim is to drive down the cost of building personal clean unplugged houses in less than five years.

4.9 PEC PURE Energy Centre

- 4.9.1 The PURE Energy TM Centre (PEC) is based at the Hagdale Industrial Estate in Unst. They have established a team of engineers and project managers with a track record that makes them a leading UK company in Hydrogen technology and research. In 2005 the PURE project delivered a zero emissions, off-grid, renewable hydrogen hybrid power supply to the industrial estate in Unst. They also provided a fuelling point for the UK's only road licensed renewable hydrogen fuel cell powered car. The centre provides training and courses in a wide range of hydrogen and renewable energy related courses from health and safety issues of handling hydrogen to courses looking at the Global energy situation – security of supply.
- 4.9.2 The PEC are currently undertaking a study for ZETRANS that shall look at the feasibility and technical solutions for converting Internal Combustion Engines (ICE) to run on hydrogen. The study will allow the Council to decide if it is a viable option to convert some of its vehicles to run on hydrogen. Results of this study will be presented to ZETRANS in November 2008.
- 4.9.3 As well as conducting research and development work in Unst the PEC are marketing their HYPOD. This is the only off-the-shelf system in the world, which can handle a direct renewable input without any degradation. The HYPOD in Unst converts surplus wind energy into hydrogen. This is stored and can be reused as fuel for transportation or generating power using either fuel cell or Internal Combustion Engine. The PEC have sold several units which they are installing to customers outside of Shetland, including one in the Western Isles.
- 4.9.4 The PEC have set their sights on developing products for the global market and have already conducted some pioneering work in demonstrating the practical use of renewable hydrogen and are now able to promote their products and services.

4.10 Marine Renewables

- 4.10.1 There is great potential in Shetland for the development of wet renewables, as they are often referred. Shetland has some excellent tidal stream sites in relatively sheltered waters, particularly Yell Sound and Bluemull Sound. The wave resource to the west of Shetland is one of the best in Europe. The lack of grid capacity has been a factor in not being able to connect any quantity of renewables but there is scope for the testing of prototype devices and some smaller developments in the short to medium term.

- 4.10.2 The tidal and wave industry are at the very early stages in development and the European Marine Energy Centre (EMEC) established in Orkney have a list of devices to be tested there over the next 5 years. The centre has almost reached capacity so there is scope for some other locations to test devices. There could be opportunities for Shetland to provide this.
- 4.10.3 There are two companies looking to deploy tidal stream prototype devices in Yell Sound or Bluemull Sound. The projects are interesting in that they both involve Shetland partners who will be involved in the building and deploying of the devices. More information will be made public in due course.
- 4.10.4 The EMEC centre in Orkney has had spin offs for Shetland in that companies such as Delta Marine have gained work in deploying and anchor handling on the Pelamis wave device and are now working off Portugal where 4 Pelamis devices are to be installed. Delta Marine has also undertaken a number of contracts with offshore wind developers.
- 4.10.5 Shetland Composites built the seventh scale prototype of the Pelamis device in Shetland and they are currently looking to expand their business by building a new larger, insulated workshop. This would allow Shetland composites to compete for work on larger scale wave and tidal devices and build them in Shetland. They also do a lot of work making components for wave test tanks, again their new premises will allow them to compete for bigger contracts not possible at their current location on the SBS base, nearly all this work is for export outside Shetland. Other local engineering firms that have gained work from tidal devices include Malakoff Ltd and Ocean Kinetics.
- 4.10.6 There are a large number of designs being drawn up to harness marine renewable energy and the first prototypes are being launched. The huge resource around Shetland is recognised by the industry and if an interconnector to the UK mainland were in place, it is likely that this would assist in the development of wet renewables on a larger scale. There are good opportunities in the meantime to look at what work can be attracted to Shetland in the Research and Development sector. Companies such as Scottish Power and SSE all have investments in marine technologies and they are having high level discussions to look at the requirements for connecting the areas of good wave and tidal resource to the UK electricity grid. The best areas of marine resource are around Shetland, Orkney and the Western Isles.
- 4.10.7 Survey work is planned in Shetland during October 2008 for the marine renewables industry. This will be part of a wider survey looking at areas of tidal stream in the Pentland Firth, Orkney and Shetland. The SIC and HIE Shetland are feeding

information into the Scottish Renewables Forum to try and make sure a number of Shetland sites are included in the survey priorities.

4.11 Viking Energy

4.11.1 Viking Energy is the most high profile renewable energy project being developed in Shetland. In 2002, the Economic Development Unit were approached by SSE, among several other prospecting developers, looking to develop large scale windfarms in Shetland. The reason the Council was approached, was as owners of the Busta Estate. It was decided that, if such proposals were to be looked at in Shetland, the community should become involved to make sure that they have a say in how such a windfarm is developed and maximise the long term returns and benefits for the Shetland Community.

4.11.2 The Viking Energy project would be the largest community owned wind farm in the UK. If the wind farm goes ahead the Shetland community could share 50% of the profits generated from the project. Even as a civil engineering project alone, it would lead to in the region of £600m of work being undertaken in Shetland. This is a highly innovative project, that is looking at the long term sustainability of Shetland, while the oil throughput at Sullom Voe is declining and there is no longer the same level of income to the oil funds.

4.11.3 The Viking Energy project relies on an interconnector being built to the UK mainland. An interconnector will most certainly assist in the development of Marine renewables in Shetland, and it is possible that returns from the Viking Wind farm could be used to establish marine renewables in Shetland, with a community owned wave or tidal stream farm. These are just ideas at the moment and are possibilities that could be developed as a longer-term view. Viking Energy is not planning to produce power until 2015 and any large-scale wave or tidal project would be beyond this date and rely on capacity on an interconnector.

4.12 Training and Skills Development

4.12.1 It is important that the appropriate skills base for growing a renewable energy sector can be developed in Shetland. The Shetland College in partnership with UHI and Lews Castle College, as well as the NAFC Marine Centre could be key bodies in delivering these training opportunities. There is a lack of skilled engineers in this sector, in the UK in general. If the Viking Energy windfarm were to be built it is estimated that there would be a requirement for 50 skilled jobs in that project alone. This is an issue Viking Energy are looking at as part of their project development.

4.12.2 The Shetland College already have a classroom dedicated to renewables, this can allow the local building sector to see how this equipment is installed and performs in Shetland as well as addressing energy efficiency measures. The development of a Renewable Energy Strategy for Shetland will look at the industries requirements for training.

5.0 Financial Implications

5.1 There are no financial implications arising from this report.

6.0 Policy and Delegated Authority

6.1 This report has been prepared under Economic Development Policy number 18, "Support research and development projects in renewable energy across the isles, in homes, businesses and community organisations" which was approved by the Development Committee on 24 April 2008 (01/08) and by the Council on 14 May 2008 (55/08).

6.2 In accordance with Section 11 of the Council's Scheme of Delegations, 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 this is a report for information, there is no requirement for a decision to be made.

7.0 Conclusion

7.1 This report shows that there are a large variety of renewable energy projects being developed in Shetland. These projects are at all levels from micro renewables to large-scale commercial projects. Many of the projects show great imagination often due to there not being a grid connection available, whereas on the UK mainland the first option would be to just plug into the grid, other options must be investigated in Shetland. Many of the projects are therefore cutting edge and highly innovative in their approach to how the power generated is used, such as distributed heat, storage, hydrogen. All these projects benefit from the extremely good wind, wave and tidal resource Shetland has. This helps reduce payback times on projects and means there is a larger availability of renewable energy, which allows projects to become viable in the first place. The other factor is that the cost of fuel and heating oil is among the most expensive in the UK and this forms a larger part of peoples expenditure than in other parts of the UK due to the harsh climate and rural location. The economic case for renewable energy is strengthened with Shetland becoming less dependent on remote, fluctuating energy markets and moving

towards a more self-sufficient and sustainable society in terms of energy production.

- 7.2 It is the aim of the Economic Development Unit to support the renewable energy sector in line with Council Policy and assist in the drawing together of a renewable energy strategy for Shetland. Progress on this and other projects will be reported back to future meetings of the Development Committee.

8.0 Recommendations

- 8.1 I recommend that the Development committee note the contents of this report.

MH/KLM
08 August 2008

Report No: DV040-F



REPORT

To: Development Committee

21 August 2008

From: Development Officer

DV038-F Broadband and Telecommunications

1.0 Introduction

- 1.1 This is a brief information report to update Members on progress regarding the fibre optic cable and the work currently being undertaken to improve broadband in Shetland.

2.0 Link to Corporate Priorities

- 2.1 The activities reported in this document aim to fulfil our commitments in the Corporate Plan to deliver a sustainable economy and supports the aims contained in the Economic Development Policy Statement (2007-2011).

3.0 Background

3.1 Fibre Optic Cable

- 3.1.1 For many years it has been an aspiration of the Council to achieve a fibre optic link from Shetland to the Scottish mainland. In 2007 Faroese Telecom took the decision to lay a fibre optic cable from Faroe to Shetland, Orkney and Banff. This cable was completed in April of this year and, as of early July, is now fully operational, albeit without a connection to any telecoms network in Shetland.

3.2 Current Provision

- 3.2.1 Shetland's telecoms are currently connected to the UK by microwave links. These have proved over the last few years to be fairly dependable but restrictive in capacity and services.
- 3.2.2 BT and THUS (formerly known as Scottish Telecom) own and operate the microwave links.

- 3.2.3 BT owns the domestic core network (all the exchanges and fibre and copper network)
- 3.2.4 THUS has its own network (mostly wireless) which is used to provide telecoms to business and public sector users. THUS does not provide domestic broadband.
- 3.2.5 Shetland has 34 exchanges, all of which are DSL (able to provide broadband) enabled. All exchanges are owned, managed and operated by BT. No other telecoms companies offers services from these exchanges (no local loop unbundling)
- 3.2.6 ADSL services in Shetland are of two types – ADSL Max, which is the standard service offered by BT across the UK, providing speeds up to 8Mbps, and Exchange Activate (EA), which refers to 11 exchanges that have been funded for DSL upgrade under the Scottish Executive's Supply-side Intervention (SSI) project. These exchanges are not able to support ADSL Max as a result of backhaul limitations and so provide speeds to 512kbps.

3.3 Current Use

- 3.3.1 The take up of broadband services in Shetland has apparently been more rapid than the rest of the UK. This potentially reflects the fact that Shetland's exchanges were upgraded later than other parts of the UK and so the market was already anticipating broadband services based on service availability elsewhere.

3.4 Pathfinder Project

- 3.4.1 Schools and Council offices in Shetland will soon benefit from higher bandwidth broadband availability as a result of the Pathfinder project being delivered by THUS.
- 3.4.2 The Pathfinder contract was signed between Highland Council on behalf of a partnership, which also includes Orkney, Shetland, Argyll and Bute and Moray Councils, and THUS in March 2007. The contract is to supply a managed broadband telecoms service to all schools and Council offices across the five local authorities.

4.0 Economic Importance of Telecoms

4.1 Business

- 4.1.1 The importance of robust high-speed telecoms in the modern business cannot be underestimated. Companies of all kinds are finding the need for better telecoms and demands on bandwidth are increasing at pace. The need is much more than the ability to send and receive e-mails quickly. Businesses are seeing the benefits of VoIP (internet based) telephony as well as Video Conferencing.
- 4.1.2 Good broadband allows satellite offices to develop whereby businesses can relocate to new areas and share services.
- 4.1.3 The future requirements of a healthy economy will be intrinsically linked to high bandwidth availability.

4.2 Domestic

- 4.2.1 Broadband is now part of daily life, whether that be shopping, downloading music or just surfing the internet.
- 4.2.2 Shetland residents are amongst the highest users of the Internet in the UK.
- 4.2.3 A key element of any healthy local economy is having the right people available to work and live within the area. People are unlikely to want to live in areas that cannot get modern telecommunications.
- 4.2.4 Home working, whereby people can operate businesses from home or work remotely from their main place of work, is becoming more and more common and is a trend that is likely to continue.
- 4.2.5 Internet services to homes across the UK are developing at pace. Recent decisions by television channels such as the BBC and Channel 4 to deliver programmes 'on demand' is only the beginning.

5.0 Technical Options for Development

- 5.1 The telecoms networks are made up of three different types of network, these are:-
 - **Access network** – connects the individual user to the network, and so typically describes connection from a user's premises to the entry point to the network (e.g. an exchange or base station) – this describes the process for accessing 'retail' services

- **Backhaul network** – typically used to describe a link from an exchange to a central exchange or switch, from which point traffic is then aggregated and transferred to the core network. Backhaul connections can be provided by a number of means including fibre, copper, microwave, or other wireless link
 - **Core network** – this is the core network of the telecommunications operator which includes connectivity in to international gateways including the Internet.
- 5.2 The new Faroese Telecom fibre link to Shetland has the potential to improve the **backhaul** between Shetland and **core** networks on the UK mainland, and offers a number of benefits compared to existing microwave backhaul (including bandwidth and resilience).
- 5.3 However, in isolation this does not benefit those living and working in Shetland because in order to improve connectivity to homes and businesses, the **access** network also has to be considered (because this is the portion of the network that controls the connection to the user). The Faroese Telecom fibre must be connected into existing infrastructure (access networks in Shetland and core networks in the UK) in order to bring benefits.
- 5.4 In order for Shetland to fully benefit from the cable a Point of Presence (PoP) also needs to be located in Shetland and there needs to be a fibre optic link from the PoP to the Faroese cable. A PoP is essentially a digital exchange where data can be routed to other PoPs on the mainland.
- 5.5 The next major development in the UK's network infrastructure will be BT's the 'Twenty-first Century Network' (21-CN) upgrade project, which is a national £10 billion investment in providing an IP (Internet Protocol) core network. Investment has begun on the network upgrade, which aims to provide service convergence and simplification to BT by converging its multiple service platforms on to a single IP network. Customer migration has started in a number of areas prior to the full national migration process, which will run in the rest of the UK between 2008 and 2012. This upgrade will happen in Shetland but it is unlikely to be before 2012.

6.0 Current Situation

- 6.1 The Economic Development Unit has been working very closely with the telecom companies in an effort to improve provision and services in Shetland.
- 6.2 We are working towards the following key developments:-
- **Connection to Faroese Fibre Optic Cable** – this is critical to any future upgrade or development in telecoms. BT have leased capacity on the cable but have no plans to use it until

they roll-out 21-CN in Shetland. We need to ensure that there is a connection made as soon as possible.

- **Upgrade of Exchanges** – Although most exchanges in Shetland are able to provide ADSL (full broadband), 11 exchanges can only provide a reduced service. We need to get as many of these upgraded as soon as possible. Broadband is a key element of ensuring that businesses can operate in outlying areas. BT will upgrade these exchanges as part of 21-CN but that may be years away.
- **Point of Presence (PoP)** – A PoP is a digital exchange which a number of telecoms companies can use to provide higher bandwidth services. It will also provide more competition because new telecoms companies would also be able to provide services in Shetland. It is a critical element in being in a position to supply cost effective bandwidth to telecoms dependant businesses and the public sector (NHS, Council etc)

6.3 Throughout the discussions and negotiations it has become apparent that although each of the telecoms companies are keen to assist with helping us achieve the above, it is difficult for them to make improvements based on financial returns. BT, THUS and Faroese Telecom are all commercial entities and, understandably, will only invest in order to get a financial return. The location and relatively small telecoms market in Shetland means that making a financial case for investment somewhat difficult.

6.4 However, recent discussions and negotiations with the providers may hold some potential for achieving some, if not all, of our aims. There seems to be a willingness by all parties to collectively work together to find a cost effective solution.

6.5 To this end, the EDU has spoken to the providers along with HIE and the Scottish Government with the aim of holding meetings to see if a solution can be found.

7.0 Scope for Future Work

7.1 Community Broadband

7.1.1 There is a pressing need and desire within Shetland's outlying communities for better broadband coverage. Exchanges that only have EA services (512kbps) provide basic broadband, which falls short of peoples expectations.

7.1.2 Hopefully (as part of the discussions mentioned earlier in the report), we can achieve upgrades to these BT exchanges. If upgrading these exchanges does not prove to be possible then we will need to consider an alternative solution. The next planned BT upgrades to these exchanges are years away so an interim solution would need to be found.

- 7.1.3 One solution may be to trial a community based wireless broadband solution. We have had some discussions with a broadband supplier who is willing to provide bespoke broadband solutions.

7.2 Fibre Optic Networks

- 7.2.1 Fibre optic technology provides future-proof telecoms. Many areas are now looking to the possibility of providing fibre to the home (FTTH). In rural areas such as Shetland where homes tend to be spread out this may be a costly procedure. This barrier means that we should be looking to innovative means of taking advantage of opportunities should they exist.
- 7.2.2 The speed of the broadband service a home or business receives (all things being equal) is dependant on the distance from the exchange (access networks). The exchanges are connected by a fibre optic network (backhaul network). If FTTH proves to be a step too far for commercial operators then we need to be considering how to get the fibre network closer to the home. This may be achieved by locating equipment closer to housing developments which will extend the range of high capacity bandwidth.

7.3 Expansion of IT Sector

- 7.3.1 Once we have full connectivity to the fibre optic cable, Shetland will be in an ideal position to develop IT businesses. We need to do further work on how best to develop the sector and also look in to the possibility of encouraging businesses to relocate to Shetland.

8.0 **Financial Implications**

- 8.1 There are no financial implications arising from this report

9.0 **Policy and Delegated Authority**

- 9.1 The subject of this report relates to Economic Development Policy Number 15 "Establish robust broadband services to businesses, organisations and homes in Shetland (Development Committee Minute Reference 01/08, SIC Minute Reference 55/08).

9.2 In accordance with Section 11.0 of the Council's Scheme of Delegation, 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

9.3 As this is an information report, there is no requirement for a decision to be made.

10.0 Conclusion

10.1 Broadband and broadband services are now an integral part of modern living and working. High quality telecoms are vital to ensure that Shetland does not fall behind the rest of the UK.

10.2 Uptake of broadband in Shetland is amongst the highest in the UK.

10.3 Broadband is a critical element of population retention and may hold the key to encouraging more businesses and people to come to Shetland.

10.4 Every effort should be made to encourage the telecoms companies to provide a high level of services in Shetland.

11.0 Recommendations

11.1 I recommended that the Development Committee note the content of this report.

Our Ref: MS/KLM
Date: 30 July 2008

Report No: DV038-F

Shetland Islands Council

Ferry - Captain
First Mate
Engineer
Deckhand x 2

School – Head Teacher
Assistant (P/T)
Cook (P/T)
Playground Assistant (P/T)
School Secretary (P/T)
Cleaner (P/T)

Social Care – Care At Home (P/T) x 2 (plus 1 relief)

Housing – Old Folk's Warden

Road Engineer (P/T)

Registrar (P/T)

Waste Collection (F/T)

Campsite Caretaker (P/T)

Hamar's Ness Waiting Room Cleaner (P/T)

Crofting & Farming

Full-time Crofter x 2

Part-time Crofter x 12 (approx.)

Tenant Farmer x 1

Other Orgs & Businesses

Fetlar Café – P/T x 2

Fetlar General Merchants – Shopkeeper (P/T)
Assistant (P/T)

Fetlar Interpretive Centre – Curator (Seasonal)

Fetlar Post Office – Postmaster
Postal Delivery (P/T)

Gord B & B – Owner/Manager

Jobs in Fetlar

Highlands & Islands Fire and Rescue Service – Retained x 8

HM Coastguard Search & Rescue – 1 Care & Maintenance; 7 volunteers

Lakeland Unst – P/T Salmon Worker x 2

NHS Shetland – Nurse

RSPB – Warden

Scottish Water – Caretaker (P/T)

Shetland Amenity Trust – Camping Bod Caretaker (P/T)



REPORT

To: Development Committee
Shetland Islands Council

21 August 2008
10 September 2008

From: Head of Business Development

Report No: DV039-F
Depopulation of Fetlar

1.0 Introduction

- 1.1 This report has been prepared to provide the Development Committee with an opportunity to debate the continuing downward economic and social spirals in Fetlar. Depopulation is now approaching a critical level and the demographic structure of the remaining population is aging significantly. The report considers some measures that may help the situation and suggests that the Council establishes a Working Group dedicated to the Fetlar situation.

2.0 Links to Corporate Priorities

- 2.1 Section 1 of the Corporate Plan 2008 – 11 contains a number of targets and policies that are relevant to the subject of this report. In particular Section 1 states:
- We will place more effort on stimulating demand for living in the remoter areas of Shetland by ensuring that the ratio of jobs to people and housing is the same as is in more central areas.
 - We will ensure that equal opportunities exist for all.
 - We will increase the population of Shetland to 25,000 by 2025.

Under the Sustainable Economy Action Area it is a stated aim to “engage with agencies and community based groups to identify projects that help to retain active rural populations”.

3.0 Background

3.1 Population

- 3.1.1 The population of Fetlar stands at 50 people, 36 fewer than in the census year of 2001. This represents a drop of around 41 % in a relatively short period. A recent survey conducted by Community Work revealed that a further 10 people are considering leaving. In addition to falling dramatically the population is also aging. Many people are elderly and are not economically active. There are no children below school age and the Primary School will have to close when the last of the 3 primary school pupils leaves to go to Secondary school in 2010.

3.2 Economy

- 3.2.1 One of the main reasons that young people are leaving Fetlar is that there are very few job prospects on the island. It is very difficult to make any kind of a living outside of agriculture and Council related service jobs. The situation is much more restricted than on other islands because there is no access to the sea for commercial fishing. There are also no Fetlar based contractors of any size and very few commercial services. A list of Fetlar's employment is shown in Appendix 1.

3.2.2 Housing

The lack of available housing is a particular problem in Fetlar and may be one reason why families are not able to consider moving to Fetlar.

3.3 Grazings Management

- 3.3.1 For many years a grazings management agreement with Scottish Natural Heritage for the North Hill has provided a valuable source of income for 10 crofters. This arrangement is about to end in 2009. The new management contracts, through the Scottish Rural Development Plan are only worth 6% of the previous income. In all, the expected loss in income will be around £100,000 a year. A large part of the management agreement relates to reduced stocking on the hill, which means that the crofters' single farm payments reflects lower historic stocking numbers and is consequently also lower. Put against the background of long-term economic decline, this new situation is fuelling a downturn in confidence in the economic future of Fetlar. While the new Scottish Rural Development Plan does not include the type of contractual grazing management arrangement that the Fetlar crofters still have, the North Hill is an area of serpentine heath, a unique natural environment in Scotland. Measures should therefore be encouraged to protect the North Hill as a higher priority than is being proposed.

3.4 Development Work

3.4.1 Shetland Islands Council's Community Work service has been working along with the Fetlar Development Group for a few years in an attempt to find ways to strengthen both the economic and social prospects of the island. An economic development plan is emerging from the work and some initiatives have been started. For example the community has been running a Café in the Hall for this year's tourist season. This type of project does help to show that progress can be made if the community works together. However, making significant progress on the plan will require a lot of external assistance, particularly if plans for a community buy-out of the island are advanced.

3.5 Historic Perspective

3.5.1 Fetlar's economic destiny was to a large part set in the late 19th and early 20th centuries. At a time when the fishing industry was being developed throughout Shetland the influential people in Fetlar placed a higher emphasis on developing the island's agriculture. In comparison with most of Shetland, Fetlar has fertile ground and is known as "the garden of Shetland". Concentrating on agriculture was therefore a rational decision at the time but to do so without attempting to develop fishing, Fetlar's main industry at the time, demonstrated a serious lack of vision. For generations the islanders have been asking for a sheltered pier that can provide safe access to the sea. Fetlar is the only inhabited island in Shetland that does not have sheltered berthing for boats. As shown in appendix 1, while 2 people work in aquaculture outside Fetlar, the only fisheries related job in Fetlar is 2 part-time posts working with a small smolt rearing cage on a fresh water loch. Agriculture is still an important part of the rural community in Shetland but over the last 50 years it has become increasingly difficult to make a full-time living in crofting. Croft income has to be augmented with income from other sources so any agricultural dependant community such as Fetlar that does not have other work will decline.

4.0 **Proposed Measures**

4.1 In view of the serious position of Fetlar's population, a number of measures are proposed below to foster an improvement in Fetlar's economic and social situation.

4.1.1 Fetlar Working Group

It is proposed that the Development Committee establishes a working group dedicated to the future of Fetlar. This group will provide a more formal approach to the work being done in Fetlar by introducing Council involvement at Member and Committee

level. It will seek to co-ordinate the resources required to achieve the emerging Fetlar Development Plan. A remit for the Fetlar Working Group is attached as appendix 2. The Fetlar Working Group will achieve its economic development work through the existing delegated authority of the Development Committee and the Head of Economic Development. A significant early task of the Working Group will be to identify those projects in Fetlar that might benefit from external funding through the Scottish Rural Development Plan. Attendance at Fetlar Working Group meetings will be a formal duty for the elected Members involved.

4.1.2 Sheltered Berths

Earlier this year the Fetlar breakwater, which is a necessary development to station the ferry in Fetlar, was approved as part of the Council's Capital Programme. The project is not yet at the funded stage and does not include paying for the berthing face that is drawn on the plan. Zetrans is currently seeking external funds through ERDF to help pay for the berthing face. It is therefore proposed that the Economic Development Unit is tasked with the responsibility of identifying part of the funding for the Fetlar berthing face through the Development Committee's budgets. The immediate impact of a berthing face in Fetlar is that the 2 resident salmon workers who work from Unst could be based in Fetlar.

4.1.3 Grazings Management

Following a meeting of various bodies with an interest in the management of the grazings in the North Fetlar hill on 29 May, Scottish Natural Heritage (SNH) agreed to examine what options exist to improve the situation of the crofters. At the time of writing this report these options had not been priced but it is apparent that none of the options will replace the existing contracts with a payment level at anywhere near the present rate. In view of the unique circumstances of the North Fetlar hill as rare serpentine heath and the fact that the crofters are unable to claim their full single farm payment as a consequence of existing management contracts with SNH, it is proposed that the Council makes representation to the Scottish Government on behalf of the Fetlar crofters involved.

5.0 Financial Implications

- 5.1 The only immediate financial implication arising out of this report is the cost of Members' meeting allowances and expenses for attending the Fetlar Working Group. There would however be a cost should the Development Committee take a future decision to part fund the berthing face. The total cost of the berthing face is currently estimated at £900,000 and there is the prospect of external funding of 25% of this figure. That would leave a sum of £675,000 to be funded from existing Development Committee budgets, with a corresponding saving or reduction elsewhere in Development budgets. This subject would of course be the subject of a further detailed report.

6.0 Policy and Delegated Authority

6.1 This report has been prepared under Economic Development Policies 10 “ Support agricultural development projects that derive income from and enhance Shetland’s natural heritage” and 27 “Support for community enterprises engaged in economic activities”. Policy 27 includes a pledge to “Undertake intensive research projects into the retention of active rural populations”. These policies were approved by the Development committee on 24 April 2008 (01/08) and by the Council on 14 May 2008 (55/08).

6.2 In accordance with Section 11.0 of the Council’s Scheme of Delegation, 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 policies the Development Committee does have delegated authority to make a decision.

7.0 Observation

- 7.1 HIE are very keen to be involved in the Fetlar Working Group at a stage when it is clear what support can be considered under the new direction for HIE.
- 7.2 With the provision of a breakwater at the ferry terminal, the Fetlar ferry service could be disengaged from Unst and Yell thereby allowing a greater flexibility of service provision for the island. While the project is on the Council’s Capital Programme, the Council has given no firm commitment to develop the breakwater. Plans for regenerating Fetlar would be much clearer if the timetable was known for the development of the breakwater, and the associated berthing face.

8.0 Conclusion

- 8.1 The future of Fetlar rests in the hands of its resident population. At present there is a strong motivation among the people of Fetlar to end the economic decline and falling population. A massive effort is required which will have a much better chance of success with external assistance. This report recommends the provision and co-ordination of Council resources to assist in the work.

9.0 Recommendation

9.1 I recommend that the Development Committee:

- a) Establishes a Fetlar Working Group as specified in Appendix 2 of this report;
- b) instructs the Head of Economic Development to identify funding to support the berthing face part of the breakwater development project; and,
- c) makes representation to the Scottish Government on behalf of the Fetlar North Hill shareholders to retain higher levels of management income than is currently available under the Scottish Rural Development Plan.

DI/KLM F02
07 August 2008

DV039-F

Shetland Islands Council

Development Committee

Fetlar Working Group

- Name:** The name of the working group shall be the Fetlar Working Group.
- Purpose:** The purpose of the Fetlar Working Group is to co-ordinate Council effort to identify ways to strengthen the economic and social structure of Fetlar. The Working Group will concentrate on projects rather than policy and will base its work on the Development Plan for Fetlar currently being prepared for the Fetlar Development Group. While the remit of the Working Group does not involve Council Service issues, apart from economic and social development, there will be times when other Council services such as Housing and Transport will have to engage in the activities of the Working Group.
- Reporting:** The Working Group will report to the Shetland Islands Council Development Committee
- Duration:** The Working Group will operate for an initial period of 2 years until 31 August 2010.
- Chair:** The Working Group will be chaired by the Chair of the Development Committee or, in his absence, by the Vice Chair of the Development Committee.
- Members:** Working Group members will consist of the following councillors, council staff and Fetlar residents;
- Chair of Development Committee
 - Vice Chair of Development Committee
 - All North Isles Councillors
 - Chair of Fetlar Community Council
 - Vice Chair of Fetlar Community Council
 - All members of Fetlar Development Group
 - Head of Business Development
 - Community Work Manager
 - Community Worker, North Isles
- Additional Members:** The Chair of the Fetlar Working Group will have authority to appoint additional members onto the Working Group when other organisations and services can help with the work.



REPORT

**To: Development Committee
Shetland Islands Council**

**21 August 2008
10 September 2008**

From: Head of Business Development

**DV036-F
State Aid Manual**

1.0 Introduction

- 1.1 This report has been prepared to obtain Council approval for a State Aid Manual that will be issued to all staff engaged in providing financial assistance for economic activities. The Manual emphasises the methods that can be used to advance projects within the State Aid framework.

2.0 Links to Corporate Priorities

- 2.1 The Corporate Plan 2008-11 contains a section on Sustainable Economy that includes policies relating to all sectors of the economy. All staff engaged in economic development need to understand how to act within the powers of the Council in order to deliver quality services to the Shetland public.

3.0 Background

- 3.1 For the last four years the Council has had to become much more aware of the manner in which financial assistance is awarded for the development of local industry. Following a number of state aid investigations and, after taking legal opinion, it is now known that the Council's Reserve Fund is classified as being part of the apparatus of the state. Hitherto, the Reserve Fund was regarded as being outside the scope of state aid because it was not derived from taxation.
- 3.2 Confirmation of the Council's position was latterly provided by Dundas and Wilson CS LLP in its report "Shetland's Oil Monies and their Governance". One of the recommendations of the report, which was discussed by the Council on 19 March 2008 (Min. Ref. 43/08), was that the Council should develop a State Aid compliance manual.

- 3.3 Over the last 4 years Council staff have been learning much more about State Aid and the ways to use the various regulations to best effect in Shetland. All schemes have been screened, some have been dropped, others amended and some were being operated within the regulations.
- 3.4 It is important that all staff understand the principles and the more routine practices of awarding financial assistance under the State Aid Regulations.

4.0 Proposal

- 4.1 It is proposed that the Council adopts the draft State Aid Manual, attached as Appendix 1, as a guide for all Council staff involved in providing financial assistance for local industry. It is also proposed that the Operating Principles and Guidelines section of the Economic Development Policy Statement is updated to include a statement on State Aid compliance.

5.0 Financial Implications

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

6.0 Policy and Delegated Authority

- 6.1 This report has been prepared with regard to the Council's Economic Development Policy Statement in general. State Aid relates to all policies but is not specifically mentioned in the document. The Policy Statement was approved by the Development Committee on 24 April 2008 (01/08) and by the Council on 14 May 2008 (55/08).

- 6.2 In accordance with Section 11 of the Council's Scheme of Delegation 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 in effect involves the approval of a new operational policy and is not covered by any specific existing policy, the Development Committee does not have delegated authority to make a decision. Instead, the Committee has to make a recommendation to Council.

7.0 Observation

- 7.1 The State Aid regulations change fairly regularly so it would be very cumbersome to bring the State Aid Manual back to the Council for updating every time a change occurs. It is therefore more appropriate to enable the Head of Economic Development to update the State Aid Manual without having further recourse to the Council.

8.0 Conclusion

- 8.1 In circumstances where the State Aid Regulations govern the approval of financial assistance for economic development, it is essential that staff engaged in economic development activities are provided with a State Aid Manual to guide their work.
- 8.2 The draft Manual has been viewed and commented upon by the Scottish Government's State Aid Unit.

9.0 Recommendation

- 9.1 I recommend that the Committee recommends to Council that:
 - a) the draft State Aid Manual, attached as Appendix 1, is approved as an official Council policy;
 - b) the Head of Economic Development is given delegated authority to keep the State Aid Manual up to date; and,
 - c) the need to ensure State Aid compliance is included in the Operating Principles and Guidelines part of the Economic Development Policy Statement 2007 – 11.

DI/KLM
07 August 2008

Report No: DV036-F

Shetland Islands Council**State Aid Manual****Guidance for Economic Development Workers****Introduction**

The purpose of this paper is to provide an overview of the opportunities and the restrictions that are set by the EU regulations relating to the investment of public funds into economic development projects. These regulations are more commonly known as State Aid rules. This Manual sets out some information to help people engaged in economic development projects to understand the processes of State Aid better and to do their work with confidence. It is important, however, that the Manual is not used as a comprehensive guide because the State Aid rules are very complex and are often open to broad interpretation. There are numerous pitfalls that need to be avoided so the Manual should be seen as providing direction rather than setting out definitive solutions. The Council needs to award funding according to the State Aid rules because an award of illegal State Aid can be challenged and, if any complaint is upheld by the EU, the recipient will be ordered by the EU, through the UK Government, to repay the funding received with all interest. Technically it is the funding recipient's responsibility to ensure that any assistance received by them is awarded legally. However, the Council must be seen to uphold the law and should not therefore award funds that can be challenged at a future date. If you are not sure about the status of any particular funding request you should ask and, if the matter remains uncertain after consultation within the Council, then the Scottish Government's State Aid Unit should be contacted for an opinion. All such correspondence with the Scottish Government must be retained on file to provide an audit trail.

While an attempt has been made to make the text of this document as plain as possible, it is still necessary to use the State Aid terminology so that readers can become familiar with EU terminology. The use of phrases such as "block exemption" or "de minimis" are necessary.

What is State Aid?

State Aid refers to any assistance or subsidy given by a member state of the EU (This includes local authorities because they are part of the national apparatus of government) to any organisation (legally known as an undertaking), which distorts or threatens to distort competition.

The beneficiary of State Aid is always an enterprise but the beneficiary may not be simply the enterprise that receives the funding – it can be any enterprise that receives a benefit from that funding.

The EC controls State Aid to ensure competitiveness and to emphasise development with innovation rather than forms of subsidised trading. Regulations are in place to achieve a fair commercial environment throughout the EU.

Assistance is a State Aid if all of the following 5 criteria defined in Article 87(1) of the Treaty are met:

1. Does the assistance come from a State Resource?
2. Will the assistance confer an advantage?
3. Is the assistance provided selectively?
4. Will the assistance distort competition?
5. Will the assistance have an effect on trade between member states?

If one of these criteria is not met then the assistance is not a State Aid. So, for example, while the Council's Rural Shop scheme meets the first 4 criteria, it is not a State Aid because the assistance provided does not have an effect on trade between member states. However, this example apart, it is important to understand that there are few other examples of criterion 5 not being met. The EU usually takes the view that assistance will fulfil criterion 5.

Examples of State Aid include:

- Grants to businesses or other undertakings engaged in commercial activities
- Loans or guarantees awarded below market rates
- Tax relief or exemptions
- Provisions of goods and services on preferential rates
- Free or subsidised advice/consultancy/training
- Public funding of infrastructure benefiting specific end users
- Cash injections to public enterprises such as nationalised industries

What's not a State Aid

Any measure of assistance that does not meet all of the criteria shown above plus:

- "Commercial" payment for goods and services
- General Measures meaning schemes offered at national or cross-national level
- Aid to individuals and organisation not engaged in economic activities
- Loans at commercial rates
- Any form of commercial investment that meets the Market Economy Investor Principle

For example, Council loans to industry are not State Aid because they are approved at commercial rates.

Permissible Aid

The EU makes a distinction between illegal State Aid, which is aid that must never be awarded, and permissible State Aid, which is aid that may be awarded under agreed circumstances. Any grant aid awarded by Shetland Islands Council that is a State Aid has to be in the permissible State Aid category.

It is important to understand that there is a different set of State Aid regulations for certain industrial sectors. In Shetland the main Regulations that we need to be aware of are for Fisheries, Agriculture and for General Industry. People working with assistance to fisheries must therefore familiarise themselves with the Fisheries Regulations. Similarly people working with agricultural assistance must have a working knowledge of the Agricultural Regulations. The various types of permissible aid and the processes by which permissible aid can be awarded are described below:

Local Authority State Aid Cover

General Block Exemption Regulation (GBER)

The European Commission has recently adopted a General Block Exemption Regulation to allow Member States to implement certain State aid measures without the need to go through the notification procedure.

The GBER replaces a number of block exemptions including the SME, Training and Employment and covers 26 support measures as compared to only 10 in the previous regulations.

Regional Investment Aid (Article 13)

To assist development in most disadvantaged regions by supporting investment and job creation in those areas determined in the approved regional map for the period 2007-13. Aid may be awarded on the basis of a percentage of eligible costs of either new investment or new jobs created directly of the investment project.

Maximum aid intensities: 87(3)(a) Highlands & Islands – 50% for small, 40% for medium and 30% for large enterprises until the end of 2010.

Eligible costs:-

1. Tangible assets relating to land, buildings, plant, machinery and equipment. Tangible assets must be maintained in the recipient region for 3 years in the case of SMEs and 5 years for large enterprises.
2. Intangible assets acquired through the transfer of technology by the acquisition of patent rights, licences, know-how or unpatented technical knowledge.

3. Jobs created, wage costs over a period of 2 years for employment directly created as a result of the investment project.

The beneficiary must provide a financial contribution of at least 25%.

Aid for newly created small enterprises (Article 14)

To stimulate entrepreneurial initiatives within the most disadvantaged regions by supporting business start up and early stage development of small enterprises in those determined in the approved regional map for the period 2007-13

Eligible costs include, legal costs, advisory costs, consultancy costs and administrative costs.

Aid may also be awarded towards the following costs incurred in the first 5 years of creation of the undertaking:

- Interest on external finance and a dividend on own capital employed (not exceeding the reference rate)
- Fees for renting production facilities/equipment
- Energy, water heating, taxes (excluding VAT and corporation tax)
- Depreciation, fees for leasing production facilities/equipment, wage costs (provided the underlying investment or jobs/recruitment have not benefited from other aid).

Maximum Aid intensities – 87(3)(a) Highland & Islands until 2010 – 35% in years 1, 2 & 3 and 25% in years 4 & 5 and the total amount of aid that can be paid is €2 million.

SME Investment & Employment aid (Article 15)

Investment and employment aid of up to 20% for small and 10% for medium enterprises of eligible project-related costs is available where eligible costs include tangible/intangible assets and the estimated wage costs of employment directly created by the investment project, calculated over a period of 2 years.

Where the investment concerns processing and marketing of agricultural products the aid intensity shall not exceed 50% of eligible investments in 87(3)(a) areas and 40% in all other regions.

Aid for non-routine consultancy in favour of SMEs (Article 26)

Gross aid of up to 50% of the costs of outside consultants, provided the services are non continuous or periodic, and do not relate to the enterprises usual operating expenditure such as tax consultancy, regular legal or advertising services.

Aid for SME Fairs & Exhibitions (Article 27)

Gross aid of up to 50% of the costs of renting, setting up and running a stand at a fair exhibition. This applies only to an enterprise's first participation in a particular fair or exhibition.

Research and Development Projects (Article 31)

Research projects must fall into one of three categories: fundamental research, industrial research, experimental development.

Aid can be provided towards certain eligible costs of the research project to the extent and period that these are used for the research project and include the following:

- Personnel costs
- Instruments and equipment
- Buildings and Land
- Contractual research, technical knowledge and patents bought or licensed from outside sources at market price
- Additional overheads incurred directly as a result of the project
- Other operating expenses including costs of materials, supplies, similar products.

The maximum aid amounts available is set out:

Type of activity	Size of Enterprise		
	Small	Medium	Large
Fundamental research	100%	100%	100%
Industrial research	70%	60%	50%
Industrial research where collaboration between undertakings, between undertaking and a research organisation or results are widely disseminated *	80%	75%	65%
Experimental development	45%	35%	25%
Experimental development where collaboration between undertakings or between undertaking and a research organisation *	60%	50%	40%

* Certain conditions must be fulfilled for collaboration (see Article 31, para 4)

Training Aid (Article 39)

Available aid intensities for Specific Training – 45% for small, 35% for medium and 25% for large enterprises.

Available aid intensities for General Training – 80% for small, 70% for medium and 60% for large enterprises.

Eligible Training costs of a training project:-

- Trainers personnel (wage) costs;
- Trainers and trainees travel expenses, including accommodation;
- Other current expenses such as material and supplies directly related to the project;
- Depreciation of tools and equipment, to the extent that they are used exclusively for the training project;
- Cost of guidance and counselling services with regard to the training project; and
- Trainee's personnel (wage) costs and general indirect costs (administrative costs, rent, overheads) up to the amount of the total of the other eligible costs referred above. As regards the former type of costs, only the hours during which the trainees actually participate in the training, after deduction of any productive hours, may be taken into account.

De minimis aid

De minimis is the EU term applied to smaller amounts of aid that the EU has determined will not distort the market. Up to 200,000 euros (currently around £140,000) can be awarded to all enterprises in the general industrial sector over a rolling three fiscal year period. This cannot be used to support exporting, although participation in trade fairs to launch into a new market can be supported. Awards of assistance under de minimis must be made in a letter that includes a standard paragraph about the status of de minimis aid. It is the responsibility of the recipient to ensure that the de minimis ceiling is not exceeded in any 3 fiscal **year** period. However, when granting De Minimis aid you must ensure that the new award does not breach the €200,000 ceiling over a 3 fiscal year period, therefore, before awarding De Minimis aid you must ask the recipient about any aid received during the previous 3 years and determine how much of this was De Minimis aid. Unlike the Local Authority Block Exemption, de minimis aid is awarded per recipient and not per project. Both the EU and the UK government consider de minimis to be a last resort of aid that can be awarded. An award of de minimis funding is the least safe in comparison to Block Exemption aid or an award through a notified scheme. Note that there are separate de minimis regulations for Fisheries and for Agriculture.

Notification of Aid

This is one of the safest methods of providing support through a permissible State Aid method. It involves drawing up a scheme or measure under an existing State Aid regulation whether Agricultural, Fisheries or General and then notifying the scheme to the EU. The Shetland Rural Business Development Scheme is a good example of this process. Although this can take up to 6 months and as long as 2 years to set up a scheme in this manner but the process can be speeded up if required (as long as the other agencies agree for a fast track approach). Notification begins with discussions with appropriate staff in the Scottish Government who will advise on the details required and will provide the forms that have to be completed. Once a form is completed and is agreed by the Scottish Government it is then passed to the UK Government before being processed through the UK representative to the EU. While this is a complicated procedure it should be completed reasonably quickly if the scheme does adhere to the specific State Aid Regulation. The real benefit at the end of the procedure is that a notified scheme has been scrutinised by the EU and can therefore be used with a high degree of confidence.

Fisheries

The State Aid Guidelines for Fisheries and Aquaculture (reference 2008/C 84/06) covers activities in the Fish Catching, Fish Processing and Aquaculture sectors. There are particularly rigorous rules in the Fisheries State Aid regulations that need to be adhered to if we are to develop these sectors with public funds in Shetland.

Permissible aid can be considered in the following ways:

- Providing member state grant assistance in support of EU funding applications under the European Fisheries Fund (EFF).
- Block exemption through awarding assistance under the European Fisheries Fund (the Block Exemption measure for fisheries should be in place later in 2008)
- Awarding de minimis funding under Scottish Government guidance (a sum of up to 30,000 euros can be awarded to certain fisheries enterprises in any three year rolling programme) (Commission Regulation 875/2007).
- Notifying measures under as part of EFF in adherence to the UK operational Programme.

Loans to fisheries enterprises awarded at commercial rates of interest are not State Aid.

Agriculture

Activities relating to the production, processing and marketing of agricultural products are covered by State Aid regulations with a set of EU Guidelines for state aid in the agriculture and forestry sector 2007-2013 (reference 2006/C 319/01). Commission Regulation 1857/2006 relates to SMEs active in the production of agricultural products

Any funding for operational purposes to an organisation engaged in agriculture is a State Aid.

As described above there are categories of aid that cannot be approved and some that are permissible in certain circumstances.

Since January 2007 meat slaughtering and processing is considered to be in the General Industry sector and is no longer covered by Agricultural State Aid regulations. Slaughtering and meat processing is now defined as off-farm agriculture as is all forms of processing (such as cheese making), packing and retail of farm products. All these activities can benefit from the more generous Industrial de minimis rather than the much smaller agricultural de minimis.

On the farm diversification activities such as tourism, development of farm buildings for other purposes or leisure activities are not covered by Agricultural State Aid regulations.

Permissible aid can be approved under:

- The EU approved Scottish Rural Development Programme
- De minimis – a maximum amount per agricultural business of 7500 euros in any three year rolling period under the guidance of the Scottish Government (the Shetland Agricultural Business Scheme is an example of this) (Commission Regulation 1535/2007)
- Block exemption – there are a range of measures that can be covered by the Agricultural block exemption rules. These are contained in BER 1857/2006, articles 4 to 17.
- Notification – The Shetland Rural Business Scheme, the Animal Health Scheme and the 2007 Cast Ewe scheme are examples of how the notification process can be put to good use in Shetland.

Social Enterprises

Just because a project has a main social aim does not exclude it from State Aid rules. The EU definition of an undertaking is any entity involved in economic activity, irrespective of legal status. Charities, trusts etc. can all come under the State Aid rules.

Cumulative Aid

If an undertaking receives State aid from more than one source towards the same eligible costs, the total State aid must be cumulated and remain within the relevant aid intensity ceiling. This rule applies to all sources of State aid and also European Structural Funds if involved.

Funding awarded to projects under a more than one permissible State Aid route is not allowed. For example you are not allowed to add a de minimus grant top-up to a 30% grant under block exemption for the same eligible costs.

Complaints

Any individual may decide to complain to the EU about the award of funding to a particular entity or project. They may do so even when the assistance has been awarded under a Permissible State Aid measure or even when the assistance has been considered not to be a State Aid. What is important when such complaints happen, and they will, is that the Council can demonstrate that proper process has taken place before funding has been awarded to make sure that the funding is State Aid compliant.

Summary

You can't expect to know everything about State Aid so always be prepared to ask colleagues, managers or external bodies such as the Scottish Government's State Aid Unit.

Anyone engaged in economic development activities has to learn to work within the EU's State Aid framework. Better knowledge of State Aid regulations will reduce the risk of making mistakes. However, it is almost equally important to understand that there will be degrees of uncertainty at times as the State Aid rules are open to differing interpretations. In the final analysis it is only the interpretation of the EU that really counts.



REPORT

**To: Development Committee
 Shetland Islands Council**

**21 August 2008
10 September 2008**

From: Project Manager

**DV041-F
Proposed Interest Rate Policy**

1.0 Introduction

1.1 This report proposes an interest rate policy to guide Council lending to individuals and businesses for economic development activities.

2.0 Links to Corporate Priorities

2.1 The policy proposed in this report aims to fulfil our commitments in the Corporate Plan to deliver a sustainable economy and supports the commercial lending pledges contained in the Economic Development Policy Statement (2007-2011).

3.0 Background

3.1 In recent years all lending activity to individuals and businesses has been carried out through the Shetland Development Trust (SDT). This includes commercial loans, hire purchase facilities and equity investments in companies which can demonstrate both viability and economic benefit to Shetland.

3.2 On 19 March 2008 the Council took a decision to establish a Development Committee comprising all 22 elected Members to deal with matters related to economic development. It was further agreed that the activities and undertakings of the SDT would transfer to the Council [Min Ref: 50/08]. This arrangement was agreed by the SDT at its meeting on 14 May 2008 and formalised in the Fifth Supplemental Deed of the SDT.

- 3.3 To enable applications for loans, HP and equity to be assessed and approved, an interest rate policy is required which is fair, consistent and in line with state aid regulation. The SDT operated such a policy and whilst the SDT policy can be used as a guide for a Council policy, it should be noted that the European Commission have recently revised their methodology on how interest rates should be calculated.
- 3.4 The SDT policy operated by aligning to the Bank of England base rate plus a percentage of between 2% and 4%, depending on risk levels. The European guidelines on interest rates were then referred to as a secondary benchmark and a check was made that the proposed rate was not below European recommendations. Now that the European guidelines have been revised and there is a more specific method for calculation, it is current European Commission policy which forms the basis for the proposal.
- 3.5 The importance of compliance with Commission policy was recently highlighted by the decision on the state aid complaint against Shetland Islands Council as administrator for loans to the salmon farming and processing industry. The existence of a policy for calculating interest rates and the methodology used by the Council for risk assessment were factors which contributed to the commission concluding that the loans were not state aid.

4.0 Proposal

- 4.1 Within the framework of state aid control the Commission uses the reference rate to measure whether lending is a state aid. All interest rates and equity dividend rates applied to investments must be above the reference rate to be compliant.

Furthermore, it is established case law that the granting of a loan by the State or by state controlled entities to a firm may favour that firm within the meaning of Article 87(1) of the EC Treaty if the firm in question is granted loan terms which are more favourable than those that it would have obtained in the capital markets i.e. Banks. This essentially applies the market investor test – to what extent would the borrower have been able to obtain the loan from private banks on similar terms?

It is therefore proposed that when looking at an appropriate interest rate for an investment, and for setting dividend rates for equity investments, the following three steps should be followed:

- establish the base rate
- calculate the margin to be applied
- check that interest rate is aligned to that which would be provided by a UK Bank under similar terms

All applications for loan, HP and equity funding are considered on a case by case basis.

4.2 Base Reference Rate

With effect from 1 July 2008, the Commission adopted a new way of calculating the base rate for each member state. The rate is calculated using 1-year inter bank offered rate (IBOR). The base rate will be calculated each year and based on the 1-year IBOR for September, October and November. The resultant base rate will apply from 1 January. In respect of the period from 1 July 2008 to 31 December 2008, the base rate will be based on 1-year IBOR recorded February, March and April 2008. The base rate will be updated if the average rate over the previous 3 months deviates more than 15% from the base rate in force. The current base rate is 5.66%.

When preparing a report on an investment, report writers must check the reference rate applicable at that time. This can be found on the Commission website:

http://ec.europa.eu/comm/competition/state_aid/legislation/reference_rates.html

4.3 Additional Margin Calculation

To calculate the margin to be added to the base rate the Commission takes into account the collateral offered as security by the borrower and their credit rating.

The following table illustrates the additional percentage to be added to the base rate. Please note that this is measured in basis points where 100 basis points equals 1%. The basic principle is that the higher the risk, the higher the interest rate.

Table 1

Rating Category	Loan Margins in Basis Points		
	Collateralisation		
	High	Normal	Low
Strong (AAA-A)	60	75	100
Good (BBB)	75	100	220
Satisfactory (BB)	100	220	400
Weak (B)	220	400	650
Bad/ Financial difficulties (CCC and Below)	400	650	1000

The interest rate for a company with Normal collateral and a satisfactory rating would therefore be 5.66% plus 220 basis points (2.2%) equalling 7.86%.

4.3.1 Collateral

For clarity, the Commission have indicated that normal collateral is what financial institutions would require as security for a loan.

The commission has indicated that the level of collaterals can be measured as the Loss Given Default (LGD). This is the expected loss (in percentage) of the debt outstanding, taking into account amounts from collateral and the bankruptcy assets. High collateralisation implies a LGD below or equal to 30%, Normal collateralisation an LGD between 31% and 59% and low collateralisation an LGD above or equal to 60%. In practical terms a loan of £100,000 with an expected recovery of £80,000 would have a 'high' collateral rating of 20% LGD.

It is proposed that the following factors be used to assess collateralisation based on the asset value at the time of business failure (being the worst case outcome for a business):

- The type of assets and future saleability.
- The type of security e.g. floating charge, standard security, marine mortgage, personal guarantee etc.
- The value of assets on which security is held should be compared against the borrowed amount.
- Depreciation of the assets over the period of the loan.
- Ranking arrangements with other creditors.
- Cost of realising the debt i.e. cost of administration or receivership.
- Any contractual arrangement the borrower has entered into or legal reason which would prevent the sale of assets. i.e. animal welfare legislation, ownership dispute.
- Future national and local policy which may influence the value of assets.

When evaluating applications for loan Council staff should keep detailed notes on how collateralisation has been graded for each case. The grading should be in line with the 'high' 'normal' and 'low' categories detailed in table 1. It may be necessary to seek advice from specialist valuers on some assets if this information is not accessible elsewhere.

4.3.2 Credit Rating

The majority of SIC borrowers are unlikely to have a formal credit rating and in recognition of this the Commission has indicated that alternative ratings, such as those used by banks, are acceptable.

The Council does not have a risk assessment system such as that operated by commercial banks, however, the SDT operates an established risk assessment process and this is proposed as the basis for evaluating the applicant companies:

- Financial Viability. To facilitate analysis of risk, 3 years annual accounts and 3 years forward projections along with a business plan will be analysed. For "new start" companies with

no historical accounting information, 3 years projections will be assessed with the business plans. For all companies, details of the assumptions underpinning the financial projections are required.

- Technical aspects will be considered (i.e. factory capacities, access to appropriate facilities to carry out business, valid consents, compliance with legislation).
- Proof of ability to trade within the borrowing levels in place.
- Ability to meet repayments of loan capital and interest will be checked.
- Liabilities to other secured creditors will be considered.
- Management abilities and track record.
- Appropriate insurances in place.
- Support from shareholders and external funders.
- Assessment of the market the business is trading in.
- Assessment of competitors/benchmarking.
- Assessment of political and legal factors which may affect the ability of the company to trade.
- Identification of subsidiary or parent companies and understanding their relationships to the applicant business.

Once all factors have been assessed an opinion will be reached on the technical and financial viability of the applicant organisation and a 'rating' in line with the table 1 applied. This opinion must be justified and detailed in the case file.

If, following assessment, the applicant company is considered to be in financial difficulty, Commission regulations on rescue and restructuring will be followed.

4.4 Commercial Bank Rates

Whilst the basis of the proposed Council policy is the European guidelines, it should not be forgotten that, provided it can be demonstrated that the interest rate charged on an investment is in line with other commercial lending rates on similar conditions, the loan does not constitute state aid.

It is therefore suggested that any interest rate calculated from the process outlined in section 4.1 and 4.2 be compared to commercial banking rates at that time. UK Banks generally lend between 1% and 4% above the Bank of England base rate, depending on risk. If the Council wish to lend at a rate below the Commission based method this is acceptable provided there is evidence that other commercial lenders would provide at an interest rate equivalent to the Council proposed rate under similar terms. If a lower rate is proposed, the justification for this must be documented in the report and case file.

4.5 Fixed interest rate

It is proposed that the interest rates for each investment are fixed at the outset for the period of the loan. The SDT adopted a fixed rate policy rather than a variable rate for a number of reasons, but mainly because the knowledge that the rate will not change provides borrowers with a degree of stability and confidence in planning future business developments. In addition, such a policy is very simple to administer thereby helping keep the Council's staff time and cost to a minimum.

5.0 Financial Implications

5.1 If this policy is agreed, it will become effective for all loans approved in the future. The interest rates proposed for individual investments will have implications for the income generated on these investments.

6.0 Policy and Delegated Authority

6.1 This report has been prepared with regard to the commercial lending pledges contained in the Council's Economic Development Policy Statement. The Policy Statement was approved by the Development Committee on 24 April 2008 (01/08) and by the Council on 14 May 2008 (55/08). The interest rate policy is not specifically mentioned in the document but is required to enable commercial investment to be made.

6.2 In accordance with Section 11.0 of the Council's Scheme of Delegations, 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 in effect involves the approval of a new operational policy and is not covered by any specific existing policy, the Development Committee does not have delegated authority to make a decision. Instead, the Committee has to make a recommendation to Council.

7.0 Conclusion

7.1 This report proposes an interest rate policy to apply to all future lending proposals to individuals and businesses for economic development purposes.

8.0 Recommendations

8.1 I recommend that the Development Committee recommend to the Council that the interest rate policy as outlined in section 4 of this report be adopted for all future lending to individuals and businesses for economic development purposes.

Our Ref: WMG
Date: 11 August 2008

Report No: DV041-F



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Rural Shop Improvement Scheme

Conditions

1. Applicants to the Rural Shops Improvement Scheme are to fill in **only the following sections** of the attached Application Form for Grant Assistance:

Section A – Applicant Information

1. Name and Address of Applicant
2. Name and Address of Business
4. VAT Status

Section B – Business/Project Information

1. Purpose of Financial Assistance
3. Justification
- 4a & b. Employment
7. Environmental and Quality Standards

Section C – Cost and Funding of Project

1. Estimated Cost of Business Proposal
2. Details of proposed funding package

Please note also that financial projections are not required.

2. Under this Scheme, grants are available to improve rural shops in Shetland. Assistance is only available towards the cost of capital projects.
3. Only grocer/general merchant shops and/or post offices and filling stations with a range of stock acceptable to the Council are eligible to receive assistance. Assistance to post offices and filling stations will only be provided on the basis of established need.
4. Eligible Improvements include:
 - Shelving
 - Refrigerated displays, refrigerated counters and deep freezers
 - Tills, scales and similar equipment
 - Shop vans
 - Fuel pumps and accessories
 - Floorcoverings
 - Other minor internal and external improvements

5. Ineligible improvements include:
 - Decoration and maintenance expenditure
 - Second-hand equipment (with the exception of reconditioned petrol pumps)
6. All eligible businesses can receive grants of 50% of the cost of eligible improvements.
7. All eligible businesses can receive maximum grant assistance of £10,000 during the 4 year period beginning on 1 April 2008 and ending on 31 March 2012 subject to availability, and approval, of finance on an annual basis.
8. In addition to the above, working capital assistance can be considered up to a maximum grant of £5,000 during the 4 year period to 31 March 2012, subject to availability, and approval, of finance on an annual basis. Working capital assistance will only be provided on the basis of established need.
9. The Rural Shop Improvement Scheme does not apply to shops, post offices, or filling stations located in Lerwick.
10. Major improvements such as extending premises, building new premises or extensive internal improvements will not be assisted under this Scheme, but may be assisted at the discretion of the Development Committee.
11. **Applicants must not order, purchase or otherwise commit themselves to expenditure in respect of which they intend to apply for grant before receiving a written offer of grant from the Council. Expenditure incurred or committed prior to the aforementioned written offer being received by the applicant will not be eligible for grant.**
12. All grants are discretionary, and subject to the availability of finance. They are not automatic.
13. Grants will be paid out on actual expenditure as shown by satisfactory original invoices satisfactorily received.
14. Applicants must be prepared to maintain and operate their premises, machinery and equipment in such a way as to conform, to the satisfaction of the Council, with current Food, Health and Safety at Work and Trading Legislation.
15. Applicants must be prepared to supply a copy of their business accounts to the Council, within 9 months of the end of their financial year, for each of the five years following receipt of grant.
16. If the property/equipment is sold, transferred or otherwise disposed of, within the five years from receipt of grant, the new owner must accept the grant conditions for the remaining period, failing which the grant will be repayable by you, in full, at the date of sale or transfer.
17. The business will continue to operate for a period of at least 5 years from the date of receipt of grant. Failure to do this may lead to the grant being paid back in full.

Economic Development Unit
Shetland Islands Council
31 March 2008



REPORT

To: Development Committee

21 August 2008

From: Research Assistant

REPORT NO: DV-033-F

Rural Shops Improvement Scheme – Scalloway Meat Company

1.0 Introduction

- 1.1 The purpose of this report is to seek Committee approval for providing financial assistance to the Scalloway Meat Company for re-roofing the current business premises under the Rural Shops Improvement Scheme. A Committee decision is required because the project is not covered by the delegated part of the Scheme.

2.0 Link to Council Priorities

- 2.1 This report links to the Sustainable Economy of the Council's Corporate Improvement Plan 2008/11, an aim of which is to “encourage enterprise and sustainable economic growth.”

3.0 Background

- 3.1 Assistance is currently available to rural retailers through the Rural Shops Improvement Scheme (RSIS), administered by SIC Economic Development Unit, which offers 50% grants of up to £10,000 per business for small to medium scale improvements. The conditions of the scheme are attached as Appendix I. The scheme is open to general merchants, post offices and filling stations located outside of Lerwick.
- 3.2 The Scalloway Meat Company wish to undertake an improvement project which will involve replacing the existing roof of the shop premises. The current roof has begun to leak, metal fixtures are rusting and slates are beginning to fall off the roof, presenting a health and safety hazard. As the business is housed in a Category C listed building in a conservation area the roof must be replaced on a like-for-like basis, making the project more expensive. The business has received a quote of £46,497 excluding VAT for the work.

- 3.3 RSIS projects are usually approved under the delegated authority of the Economic Development Unit. However, RSIS Condition 10 states “major improvements such as extending premises, building new premises or extensive internal improvements will not be assisted under this Scheme, but may be assisted at the discretion of the Development Committee.”

4.0 Proposal

- 4.1 Given the need for continuing support for rural shops and the high costs associated with this project it is proposed that the Economic Development Unit award a grant of £10,000 under the Rural Shops Improvement Scheme to the Scalloway Meat Company.

5.0 Financial Implications

- 5.1 The total cost of the project has been quoted at £46,497 excluding VAT. The maximum grant permitted under RSIS is £10,000 over the four-year lifetime of the current Scheme. This would be met out of budget RRD 1523 2402.

6.0 Policy and Delegated Authority

- 6.1 This report concerns an existing delegated scheme, the operation of which was last approved by the Council on 25 June 2008. The scheme is operated under the Main Aim of the Council's Economic Development Policy Statement “to improve the quality of life of Shetland residents by promoting an environment in which traditional industries can thrive and innovate alongside newer emerging industries”, approved by the Development Committee on 24 April 2008 (01/08) and by the Council on 14 May 2008 (55/08).
- 6.2 In accordance with Section 11 of the Council's Scheme of Delegation, 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
- 6.3 As the subject of this report is covered by existing policy the Development Committee does have delegated authority to make a decision.

7.0 Conclusions

- 7.1 The purpose of the Rural Shops Improvement Scheme is to help shops to improve turnover and profitability, with the ultimate aim being to improve the service to the local community. While this project is larger than the projects normally assisted under the Scheme, it nevertheless meets the criteria of assisting the improvement of shop premises, in this case a dilapidated roof.

Without Council assistance this project will be difficult for the business to afford, and may lead to a reduction in staff numbers.

8.0 Recommendations

- 8.1 I recommend that the Development Committee approves grant assistance of £10,000 to the Scalloway Meat Company for the purposes of re-roofing their business premises.

Date: 21 August 2008
Our Ref: TC/KLM/RSIS

Report No: DV-033-F



REPORT

To: Development Committee

21 August 2008

From: Interim Head of Economic Development

**Report No: DV042-F
Request For Funding to Complete Restoration of Belmont House**

1.0 Introduction

- 1.1 This report recommends that a grant of £100,000 be offered to the Belmont Trust for the final stage of restoration of Belmont House in Unst.

2.0 Links to Council Priorities

- 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 Following the formation of the Belmont Trust in 1996, the trustees set about planning the restoration of the 18th century mansion that stands as a gateway to Unst. The project gained momentum in 1997 when the ownership of the building was secured by the Belmont Trust and emergency works began to prevent further deterioration of the house. In 2003 a full architect's survey set out a plan for restoring the building back to its original condition. Funding was sought and eventually secured to begin Phase 1 of the project, to make the building wind and water tight. Phase 1 cost £346,051.50 to complete. The contractor was Shetland Amenity Trust.
- 3.2 The contract for Phase 2, Stage 1 began in November 2006. Again, the contractor was Shetland Amenity Trust. This part of the project aimed to restore the interior to a basic level before the more intricate finishing stage could begin. Phase 2, Stage 1 cost £234,983 to complete.

- 3.3 The project is now in Phase 2 Stage 2, the final phase for the restoration of the building, which involves the work required to finish the interior including fittings and furnishings. Completion of this stage will allow the Belmont Trust to put the business plan for letting Belmont House into effect. Phase 2 Stage 2 cost estimate is £603,000 towards which only £437,000 of funding has been secured. The Belmont Trust approached the SIC Economic Development Unit for funding for this stage last year and a report was taken to the Executive Committee on 23 October 2007. The recommendation of the report and the decision (min ref 41/07) was to provide £28,253 towards the completion of Phase 2 Stage 1, but to defer making a decision on Phase 2 Stage 2 until the Belmont Trust had exhausted all other funding options including the Charitable Trust.
- 3.4 Subsequently the SDT provided the Belmont Trust with a bridging loan facility of £100,000 on 23 January 2008, which was to enable work to start on this final phase whilst the Trust pursued grant funding applications to other private trusts and the Shetland Charitable Trust. The SDT loan was not drawn down and expired on 30 June 2008.
- 3.5 The Belmont Trust have now written to SIC Economic Development noting that they have exhausted options in bringing further funders on board and request that the SIC Economic Development Unit consider a grant for £150,000. A copy of the letter is attached as Appendix 1.
- 3.6 Overall Project Cost Summary

By the time of completion the estimated cost of the Belmont House Restoration project is calculated to be £1,182,500, funded as follows:

	£	%
Historic Scotland	432,000	36.5
Shetland Enterprise/HIE	179,000	15.1
Private Trusts	105,000	8.9
Shetland Amenity Trust	92,000	7.8
SIC Community Development	33,000	2.8
SIC Conservation Grant	40,000	3.4
SIC Economic Development	170,000	14.4
Shetland Development Trust	60,000	5.1
Belmont Trust	4,500	0.4
Other as yet unidentified	67,000	5.6
Total	£1,182,500	100%

This assumes that the funding arrangements discussed in this report are approved. It is also important to understand that the Belmont Trust has contributed over £70,000 to the project through running costs and work in kind during the 10 years or so that the project has been in progress. It should also be noted that a Phase 3 project, to restore the Belmont House grounds back to original condition is being worked on. The options for Phase 3 are centred more on voluntary work but there will still be costs of around £60,000 and the Belmont Trust is applying for grants etc from other funding sources to cover Phase 3.

4.0 Proposal

- 4.1 It is proposed that the Development Committee considers awarding a grant of £100,000 to the Belmont Trust towards the completion of the final stage of the building, and that the Belmont Trust either reduces the scope of the work or finds efficiency savings or raises further external funding to complete the project. Should the Development Committee agree to the recommendations contained in this report a shortfall of £66,000 would remain. The Belmont Trust, if unable to close this gap, would look to trim the scope of the works without materially affecting the end product.

5.0 Financial Implications

- 5.1 The previously existing SDT loan offer of £100,000 to the Belmont Trust expired on 30 June 2008 (refer to paragraph 3.4), and it is intended that these previously committed funds would be used to provide the proposed grant funding in this report.
- 5.2 Details of the Belmont Trust's business plan are provided in Appendix 2. Through this project the Trust aims to achieve a 4 star rating for Belmont House and the building will be marketed as high standard self-catering accommodation through the National Trust for Scotland. This type of accommodation is desirable at the upper end of the self-catering market where more affluent people plan holidays around staying in buildings that have historical significance and character. The business plan is based on a careful analysis of the market and, while there will be fluctuations, a modest profit should be possible in most years.

6.0 Policy and Delegated Authority

- 6.1 The proposal that forms the basis of this report satisfies a number of Council Policies, contained in the Economic Development Policy Statement 2007-2011. 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";
- 27. "Enable individuals to achieve their full economic potential".

In accordance with Section 11.0 of the Council's Scheme of Delegations, 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.

- 6.2 This project also complies very closely with the Principles contained in the Council's Heritage Tourism Investment Programme 2007 – 2012, approved by the Executive Committee on 04.09.07 (Min. Ref. 29/07) and ratified by the Council on 12.09.07 (Min. Ref. 108/07). In particular:-

Value for Money – The project will make a significant contribution to heritage tourism through: attracting more visitors to a particular part of Shetland; widening the range of attractions on offer; contributing to the preservation of a valuable aspect of heritage; offering employment; and, contributing to a longer tourist season.

Long Term Viability – Belmont House can demonstrate that it will not require a subsidy for running costs.

Minimum Environmental Impact – The restoration of Belmont House will bring a derelict building into use as a valuable example of 18th century architecture serving as a landmark for visitors to Unst rather than a ruin.

Best Practice in Conservation and Heritage Management – This project has been planned and executed to the highest conservation standards.

Community Support – The project has proceeded with the full backing of the Unst community.

High Quality and Good Service - Historic Scotland requires that restoration projects are carried out to the highest standards. In addition the eventual marketing of Belmont House as 4 star self-catering accommodation will provide the only service of its kind in Shetland.

Links to Wider Strategic Objectives – This project helps to fulfil aspects of the Council's Corporate Plan, the Structure Plan, the Tourism Strategy and the Cultural Strategy.

7.0 Observations

- 7.1 The Belmont Trust has been extremely successful in attracting external funding for this restoration project. At least 70% of the total anticipated cost of £1.18 million will have been sourced from outside Shetland. This fact in itself represents extremely good value for the public purse in Shetland as a lever for external money.

8.0 Conclusion

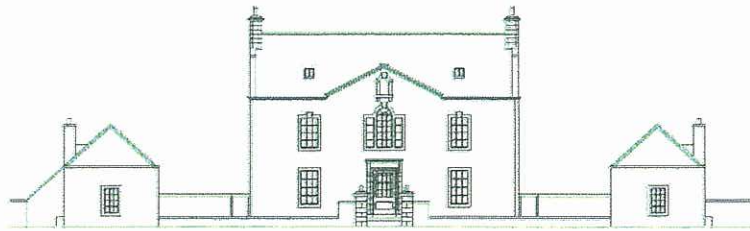
- 8.1 Restoration projects involving older buildings are extremely complicated and require the highest skill levels in all aspects of the work carried out. They are consequently very expensive. It is also essential that the people behind the project are dedicated to achieving the outcome without expecting fast results. With the approval of the funding package for the final phase of the Belmont House restoration project, the building can finally be completed to letting standard thereby realising the goals that the trustees have been working towards for over 10 years. A fully restored Belmont House would be a valuable asset for Shetland, from both an architectural attraction and accommodation perspective. That said, it is important that the Council avoids a situation where it becomes regarded as the first point of contact when the funding of heritage related projects becomes difficult.

9.0 Recommendation

- 9.1 I recommend that the Committee approve a grant of £100,000 to the Belmont Trust towards the completion of Phase 2 Stage 2 of the building renovation.

Our Ref: NRJG/JJ RF/1104
Date: 13 August 2008

Report No: DV042-F



The Belmont Trust

John Scott, Chairman, Keldabister Banks, Bressay, Shetland, ZE2 9EL
 Tel. 01595 820281 fax 01595 820729 email scott.gardie@virgin.net
 Mike Finnie, Secretary, Skeogarth, Houss, East Burra, Shetland, ZE2 9LE
 Tel. 01595 859 445 email skeogarth@btinternet.com
 Scottish Charity Number SC025846
www.belmontunst.org.uk

Mr Neil Grant,
 SIC Economic Development,
 North Ness,
 LERWICK

Ref. F.08/2



15 July 2008

Dear Neil,

Belmont House Phase 2 Pt.2

Further to my letter of 30 June and our discussion on 4 July, I write to confirm our position.

1. We undertook to explore every possible funder for this project before returning to the Council, in line with your committee's request.
2. We have secured offers of grant towards the project cost of £603,000 as follows:-

Historic Scotland	167,000	
HIE	150,000	
The Pilgrim Trust	20,000	
Esmee Fairbairn Trust	45,000	
Shetland Amenity Trust	20,000	
The Garfield Weston Foundation	10,000	
SIC Planning Dept	20,000	
The Wolfson Foundation	5,000	437,000
The Kress Foundation (WMF)	awaited	

We also received a LOAN OFFER from Shetland Development Trust of £ 100,000, which we were unable to take up due to the lesser amounts forthcoming from our applications to the above funders. However we did ask that you consider converting this loan offer into a grant.

The Belmont trustees have now considered the clear need to move forward with this final phase of the restoration. Their opinion is that we have to ask that SIC Economic Development matches the HIE offer of £150,000. We ask, therefore, that the loan offer conversion of £100,000 is enhanced by an additional £50,000 to a total of £150,000. We consider that the project cost can be reduced to £587,000.

The trustees are confident that this would give us the funding package which will allow the next phase to start in September, give continuity of employment to our contractor's North Isles squad and lead to completion in the Spring of 2010. We are worried that further delay will jeopardize the funding already promised.

Applications were made to The Clothworkers Foundation, The Sainsbury Family Charitable Trusts, The Prince's Regeneration Trust, The Gannochy Trust, The Manifold Trust and Shetland Charitable Trust which were deemed inappropriate or unsuccessful.

I should add that we have managed to raise private funding to sustain the Belmont Trust's annual costs of insurance, accountants and costs of fund raising (now £4,500 per annum) from Friends and Supporters of the Trust.

If there is further information needed, please contact me.

Yours sincerely,



John H Scott
Chairman

Sponsored by
The Architectural Heritage Fund, Baker Tilley, Dowle, Smith & Rutherford, The Esmee Fairbairn Trust,
Historic Scotland, The Leche Trust, The Manifold Trust, The Pilgrim Trust,
The Sandison Trust, Shetland Amenity Trust, Shetland Enterprise, Shetland Islands Council,
Shell UK, The Tay Charitable Trust, Shetland Charitable Trust, Shetland Community Enterprise Network
Shetland Development Trust, Garfield Weston Foundation



REPORT

To: Development Committee

21 August 2008

From: Interim Head of Economic Development

**Report No: DV032-F
Mareel Cinema and Music Hall**

1.0 Introduction

- 1.1 This report concerns a request for £965k of grant funding from Shetland Arts Development Agency (Shetland Arts) for the purpose of building and equipping the proposed Mareel Cinema and Music Hall.

2.0 Links to the Corporate Priorities

- 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 Shetland Arts approached the Shetland Development Trust for a grant of £600,000 in 2007. The officials at the Trust agreed to consider the funding request once the planning issues associated with HSE zoning were satisfactorily resolved. In the meantime the project was subject to inflation costs and modifications to the scope which involved development of the second floor. Shetland Arts subsequently requested that the Shetland Development Trust increase the grant application to £965,000.
- 3.2 In May 2008 the SIC became sole trustee of the Shetland Development Trust. All business of the Trust is now transacted through the Development Committee, under delegated authority from the Council as Trustee.

- 3.3 The Council considered a joint report by the Executive Director of Education and Social Care, the Head of Finance and the Interim Head of Economic Development on 25 June 2008, and approved the recommendations of the report, which included the approval of a grant of up to £5.19 million from the capital programme, minute ref 93/08.
- 3.4 For the sake of clarity this funding request is in addition to the £5.19 million approved by the full Council.
- 3.5 An in-depth analysis of Shetland Arts business plan which the proposed Mareel development is an integral part was conducted and contained in the report to Council on 25 June. I will not seek to repeat that work in this report but will refer to parts of it.
- 3.6 Recent years have seen growing interest and investment in the Creative Industries (CI) across virtually all developed (and many developing) economies. The UK and Scotland were amongst the first nations to realise the potential of the creative economy and, as a result, there is a strong policy framework for the development of the CI at national and regional levels.

4.0 Details of Proposed Mareel

- 4.1 Sited on the Lerwick waterfront adjacent to the new Shetland Museum and Archives, Mareel will be a Cinema, Music and Education Venue, comprising a live performance auditorium (320 seated, 600 standing), a digital cinema (159 seats), rehearsal space, recording studio, digital media production facilities, a second screen/training room (35 seats), education facilities and a café bar. It will deliver a range of services and learning opportunities to people at all levels and all parts of the community through entertainment and education, thereby adding to Shetland's culture and economic development
- 4.2 Many of Mareel's facilities have been designed around the needs of the UHI Shetland College in terms of its ambitions to provide further education in the field of music and media studies. There is currently no commercial recording studio in Shetland, for example. What makes Mareel innovative in this respect is that students of music, sound engineering and recording, technical production activities and front of house training can be done within a professional working venue rather than in a specifically academic setting, thus contributing to the 'industry readiness' of trainees once they finish their courses.

5.0 Funding Mechanism

- 5.1 A breakdown of the costs including inflation allowances and contingencies is contained in Appendix 1. Shetland Arts will receive and review building tenders for the project in September.

- 5.2 Details of proposed funding sources is also contained in Appendix 1. Shetland Arts expect to be informed of funding decisions by HIE and European Structural Funds (ERDF) during August.
- 5.3 This project accesses a significant value of external funding, with at least 33% of proposed funding being levered in from outside of Shetland.
- 5.4 Shetland Arts plan to commence work on this project during 2008 and open to the public in May 2010.

6.0 Comments on the Business Plan

- 6.1 The business model is summarised in Appendix 2.

7.0 Analysis of the Socio-Economic Impact of Mareel

- 7.1 Several studies have been conducted in recent years which give estimates of the value and economic impacts of the creative industries, music industries, and the Mareel project itself on the Shetland economy, I refer in this section to the following reports:

- *Economic and Social Impact Assessment of a New Music Venue in Lerwick, Shetland, June 2004 (AB Associates Ltd).*
- *Shetland Cinema and Music Venue, Economic Impact Assessment, April 2008 (Steve Westbrook).*
- *Creative Industries in Shetland Today, February 2008 (EKOS Ltd).*
- *Report into the potential and demand for further/higher education music in Shetland, 2008 (David Gardner & Adam Armit).*

- 7.2 The Shetland Regional Accounts (2005) estimated the total value of economic output in Shetland at £705 million with 9,200 FTE jobs in 2003/4.

- 7.3 The EKOS study estimated that the creative industries in Shetland presently account for 2-3% of the Shetland economy by employment and turnover. Creative industries are a rapidly growing sector nationally and are now thought to account for 7.9% of the UK economy.

- 7.4 The importance of the Creative Industries to the economic and social well-being of the Highlands and Islands is well documented, and recent research has demonstrated strong employment growth in the creative sector across the region. HIE is already an active supporter of the CI, and has dedicated resources to encouraging further growth across key sub-sectors, including music, writing and publishing, screen industries and fashion design.

In recognition of the growing importance of the creative sector to economic development in general, and to Shetland in particular a new partnership focussed on creative industries sector development was formed. The Shetland Creative Industries Unit (SCIU) was formed in December 2006, and comprises representatives of:

- Shetland Arts Development Agency;
- Shetland Islands Council;
- HIE Shetland;
- Shetland Development Trust;
- Visit Shetland; and
- Shetland College UHI.

Mareel is a flagship development for the creative sector in Shetland and its totemic value cannot be underestimated. It will provide invaluable resources for the sector (rehearsal space, workspace etc) and will be a critical focal point for creative people across the region and beyond.

7.5 The venue will assist in retaining the current population and attracting people to come and live in Shetland. The Shetland Population & Migration Study (2007) has predicted a decline in population in Shetland, and recommended that developing a creative industries cluster is a potential driver to increase population in the islands and preventing decline. In making decisions about re-location, social and recreational provision features prominently. It is believed that Shetland has an opportunity not only to actively seek and attract creative business to Shetland (by promoting the place as a creative environment) but also to nurture home grown business.

7.6 The Steve Westbrook report concludes that the impacts of the Mareel project net of displacement and the building construction work is £1 million annual income and 39 FTE jobs.

Important economic and social impacts that are unquantified in these numbers include:

- Retention / increase in population through providing a modern high quality venue for music, film and other arts.
- Retention of young people through new FE and HE courses and creative industry development.
- Spin off benefits to other venues in Shetland through sharing visiting performers.
- Raised profile of Shetland and the Highlands and Islands in arts provision and development.

- 7.7 Education and skills development** - The FE / HE Music Studies report identified a lack of educational facilities and resources presently in Shetland for development of higher education within the music sector, but noted that the Mareel facility should provide the full range of necessary facilities, particularly the recording studio, rehearsal spaces, teaching rooms, digital media suites and access to a performance space in the main auditorium.
- 7.8** The report further noted that 26% of secondary pupils receive additional instrumental tuition, over and above curriculum based classroom teaching, at a cost to the SIC of £770,000 per annum, providing a seemingly rich bed of youth talent on which to develop further and higher education studies in Shetland, potentially delivered through the Shetland College and Shetland Arts, who intend to develop specialised courses.
- 7.9 Tourism** – The Shetland Tourism Plan 2006-2009 was drawn up following consultation with a large section of the Shetland Tourism industry and public sector agencies. The ambition of the Shetland Tourism Plan is that "Shetland will become a year round destination offering a high quality product and experience".

The Shetland Visitor Survey also noted that the direct spend from visitors to Shetland was estimated at £16.4 million and growing, and therefore a very important sector of Shetland's economy.

- 7.10** The need for quality 'wet weather' facilities is referred to in numerous studies. The 2005/06 Shetland Visitor Survey has shown that the main reason for holiday visitors to Shetland is related to its natural and cultural environment. 18% of respondents asked about improvements to their holiday stated a cinema or music provision, and 22% of all holiday visitors attended musical entertainment or cultural events. There is an opportunity to attract tourists, particularly 'cultural tourists', who can be assured of obtaining access to live Shetland music, and of enhancing their visit to Shetland with a range of cultural activities. Mareel can enhance the existing service to this sector, including the introduction of a new range of small niche music festivals at off-peak times.

8.0 Impact on Other Businesses – Displacement

- 8.1** The issue of displacement was considered in the Steve Westbrook Economic Impact Assessment report which considered the issue under five headings as follows:
- 8.1.1** Box office income from films currently shown at the Garrison.
 - 8.1.2** Attendance at Music Hall events currently held at other venues that would transfer to Mareel.
 - 8.1.3** Visits to Mareel for events, films, casual drinks and meals, etc that displace visits to other venues and facilities in Shetland.
 - 8.1.4** Alternative expenditure in Shetland that would have been made with the money that residents would spend on their visit to Mareel.

8.1.5 Grant –aided posts that would otherwise have been located at another Shetland facility.

Regarding displacement from other events, the vast majority of provision at Mareel would be new. Where a current event promoted by Shetland Arts, or independent promoter transfers to the new venue audience numbers would grow significantly as there is currently no compatible venue. (Events for very large audiences will continue to be held at the Clickimin). Shetland Arts box office income for all venues is expected to increase 10 fold by year 5 of their business plan, which reflects continuing provision at other venues at about the current level.

There is also likely to be displacement where people patronise Mareel for a drink or a snack before or after the performance that they have come to watch, instead of a hotel or pub where this would have been their alternative night out. To an extent this would be balanced by people who would buy drinks or meals at other venues before or after attending an event at Mareel. Further there is a good argument that performances at Mareel will attract out more people who would otherwise have stayed at home. Outwith events we have to rely on Shetland Arts management of the café bar to ensure that it does not attract its own clientele at the expense of other establishments, by managing opening hours and pricing.

9.0 State Aid

- 9.1 Previous advice sought from the Scottish Government State Aid Unit confirmed the view that there did not appear to be any State Aid issues for the proposals. This was also the position adopted by the Lottery Fund in their consideration of the matter. Two complaints recently lodged with the Commission, one against the Lottery Fund and one against the Council have resulted in recent meetings with the Scottish Government, Lottery Fund representatives, the Scottish Arts Council and our mainland Legal Advisor Mr R Murray of Brodies, Solicitors. The collective view, based on the earlier advice, detailed examination of the content of the complaints and examination of a number of recent Commission decisions regarding public funding of public facilities, is that the Government will be able to robustly demonstrate to the commission that there is no State Aid issue here
- 9.2 Mr Murray will be in attendance at the Development Committee meeting, to address the Committee on any State Aid or Competition Law aspects. It is advised that any approval of grant be subject to a condition requiring the Grantee to confirm conformity with State Aid requirements both in respect of the current proposal and future business activity. This would be akin to conditions applied by Lottery Fund. It has the benefit of including the grant recipient of funding in any defense of complaints and ensures that any future modification to the proposal are also considered in terms of State Aid implications. In the meantime, our submissions being prepared by Mr Murray for submission to the Scottish Government in response to the complaints will invite the Commission to make a formal declaration in respect of there being no unlawful State Aid inherent in this project.

10.0 Proposal

- 10.1 I propose that the Development Committee considers awarding a grant to Shetland Arts of £965,000 for the purpose of building and equipping the Mareel cinema and music hall.

11.0 Financial Implications

- 11.1 Shetland Arts have requested that funding is provided in 3 equal instalments of £321,667 over the 3-year construction phase of the project.
- 11.2 The cost of this project at £965,000 has been budgeted for within the 3 year financial plan for Economic Development.

12.0 Policy and Delegated Authority

- 12.1 The proposal that forms the basis of this report satisfies a number of Policies, contained in the Economic Development Policy Statement 2007-2011. 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”.
- 16.”Support growth of businesses in the creative industries sector”.
- 27. “Enable individuals to achieve their full economic potential”.

12.2

n accordance with Section 11.0 of the Council’s Scheme of Delegations, management of the Shetland Development Trust, on behalf of the Council as sole Trustee , is delegated to the Development Committee

13.0 Conclusions

- 13.1 Mareel will act as a hub and focus for creative industry development in Shetland, a hub that does not exist at present.
- 13.2 There is potential for the proposed Mareel café bar to displace business from public houses, restaurants, cafeterias, and other establishments in Shetland. However the likelihood is that this displacement would be balanced by the event visitor buying drinks or a meal at another venue before or after the Mareel performance where they would otherwise have stayed at home.
- 13.3 I believe that this project has significant merit from both social and economic development perspectives. It should be considered to be a crucial part of developing Shetland’s economy in terms of direct benefit through the Creative Industries but also because of secondary benefits including population retention. The project thereby justifies the significant call on SDT funds from an economic development prospective.

14.0 Recommendations

- 14.1 I recommend that the Development Committee agree to provide Shetland Arts with a grant of £965,000 for the purpose of building and equipping the proposed Mareel Cinema and Music Hall, subject to the Grantee confirming the State Aid position as set out in paragraph 9.2 will be included with the other conditions to be applied.

Our Ref: NRJG/JJ RF/1221
15 August 2008

Report No: DV032-F

CONFIDENTIAL

Note of The Fisheries Panel

Board Room, Shetland Seafood Centre, Stewart Building, Lerwick

Tuesday 17 June 2008 at 10am

Present:

J G Simpson
R S Henderson
B Isbister, Shetland Fish Producers' Organisation
H Black, Shetland Fishermen's Association
L Tait, Shetland Fishermen's Association
R Henderson, Seafood Shetland
D Sandison, Shetland Aquaculture
R Simpson, LHD Ltd.
G Spence, LHD Ltd.
T Hawkins, NAFC Marine Centre
I Napier, NAFC Marine Centre
A Bourhill, NAFC Marine Centre
M Stark, Hjaltsland Seafarms Ltd.
A Blackadder, AB Associates Ltd.

NOT FOR PUBLICATION
Local Government (Scotland) Act, 1973,
Schedule 7A, para(s)

Head of Legal and
Administrative Services

Officers:

N Grant, Interim Head of Economic Development
W Goudie, Project Manager, SDT
S Keith, Project Manager, SDT
S Spence, European Officer
L Adamson, Committee Officer

Apologies:

A T J Cooper

Chairperson:

Mr J G Simpson presided.

Circular:

The circular calling the meeting was held as read.

		Action
01/08	<u>Confirm note of the meeting held on 16 April 2008</u> The note of the meeting held on 16 April 2008 was confirmed on the motion Mr R S Henderson, seconded by Ms R Henderson.	
02/08	<u>European Fisheries Fund – Consultation on UK Operational Programme</u> The Panel considered a report by the Project Manager (W Goudie), (RECORD Appendix 1). The Project Manager advised that the paper was presented to the	

	<p>Panel to seek the views from the industry on the second phase of consultation on the European Fisheries Fund (EFF) UK Operational programme. She advised that issues raised by the Panel would be included in the SIC's response to the Scottish Government, and individual organisations had also been invited to respond.</p> <p>Mr H Black said that there were limitations on what the EFF could be used for in the fishing industry, focusing either on retraining or measures to improve catch quality, as opposed to fleet rebuild. He said that with Shetland's aging fleet there was a need for rebuilding, either through the scrap and rebuild policy or fleet renewal with higher efficiencies.</p> <p>Ms R Henderson said that a concern for Scotland and Shetland was that UK Operational Programme assistance would be limited to enterprises with fewer than 750 staff or a turnover of less than €200m, and a further issue was the exclusion of any assistance for the reorganisation of aquaculture sites. Ms Henderson said that these issues would be highlighted in their feedback to the consultation, and she would provide the Project Manager with a copy of the response.</p> <p>Mr D Sandison said there was a need to look into the profile of spend, with projects possibly being more front than back loaded, and to get spend commitment and a financial package in place. He added that the response could also comment on the two year delay without European funding.</p> <p>Mr L Tait said that if countries are compliant with fisheries management, then the scrap and rebuild policy should be the way to proceed, as this would result in more efficiencies to catch the existing quota.</p> <p>Mr A Blackadder said that with the two year delay in funding from Europe there were a number of projects on hold. He said that the proposed funds were inadequate for the Highlands and Islands. In terms of demand, he said that eligibility of activities ancillary to aquaculture has been limited, however there are a lot of activities considered eligible for example net repairs and waste. He added that projects receiving funding for training through one particular Axis would not be eligible for other funding.</p> <p>The Interim Head of Economic Development said that it was important to get project proposals at an early stage, and consideration is being given to a Press Release asking for expressions of interest for projects. He added that there had been some discussions on grant intensity, and the proposal from the Scottish Government was for 45% EFF, 15% member state, and 40% private contributions. Mr Blackadder said he would be</p>	EDU
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	<p>surprised if 40% private contributions would be agreed at this stage. He added that he would assume there would be a minimum member state contribution, however public assistance can be up to a 60% ceiling, but he anticipated that the grant rate was likely to be 30-35%, and that politically a reasonable number of projects would get funding.</p> <p>The Project Manager (S Keith) said that in discussions regarding fisheries training with Ms L Donnelly, leading the EFF Programme in Scotland, the advice given was that the initial route to follow was to go through Seafish, and if problems are encountered then to go independently. She added that a Skills Audit could be the way to proceed, to provide evidence that Seafish could not deliver the fisheries training requirements for Shetland.</p> <p>Mr D Sandison proposed that a framework in the Seafood project could be used as a basis to present the larger projects, and suggested that a small group could be tasked to decide how to proceed. The Panel agreed with this proposal, as this would give more credibility, and assist with allocation of resources to the Seafood Project.</p> <p>Mr Blackadder said that the manner in which Axis 4 was expressed in the document goes against the principle of what the Commission is intending, as it appears to be very top down and limited to three strands, however it should be driven by local needs. He commented that the amount of money available in Axis 4 was minimal.</p> <p>Mr Sandison said that Shetland should be looking for one third of the money available in any of the Axes. The European Officer asked whether the Panel consider that the Axes allocations were reasonably split. The Project Manager (S Keith) said that the allocations seemed fair but without a wider knowledge of demand in each Axes, it was difficult to know. Mr G Spence said that as regards the fish catching sector, marketing and catch quality projects could fit within any of the 4 priority axes.</p> <p>Mr Sandison said that there was a need to know more about who would be allowed access to the funds. The Project Manager (S Keith) said that work was ongoing to define eligibility. Mr Blackadder said that the criteria set down was fairly straightforward, however it would be a question of changing the criteria to the benefit of Shetland.</p> <p>The Panel noted that Axis 3 offers a degree of scope for the larger companies to put forward company based projects. Mr Sandison said that Axis 2 may not be attainable and therefore projects could be considered more to Axis 3, under the guise of the Seafood Project.</p>	
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	<p>Mr G Spence commented that the £1.5m was not a great deal of money for the fish catching sector, with a large number of projects fitting under the heading. He said that this reverts back to the issue that the actual amount of money available was minimal, however any funding would be of some benefit to Shetland.</p> <p>Mr Sandison referred to Section 5.0 of the report "Grant Rates" and asked for an update on the proposed scheme whereby the SIC would provide member state contribution on projects which also achieve Council priorities and targets. The Project Manager (S Keith) advised that further discussion would be taking place on the proposals for the Scheme. Mr R S Henderson stated that wherever possible, external funding should be sought.</p> <p>Mr J G Simpson said that any feedback from industry sectors would be appreciated, and it was important that the industry works together to co-ordinate the SIC response. He added that separate responses on the consultation from the individual organisations would be beneficial to Shetland.</p>	Industry Sectors/ EDU
03/08	<p><u>Seafood Strategy Action Plan</u></p> <p>The Project Manager (S Keith) circulated a paper "Preparing an Action Plan for 2008/09" (attached as Appendix 2). She advised that individuals and industry sector organisations were being encouraged to suggest projects for consideration in the new Action Plan, and said that resources would be prioritised on projects meeting the criteria.</p> <p>Mr D Sandison enquired what the anticipated funding routes would be and the general expectations for funding and resources. He said that each project has to plan ahead and this could be difficult to achieve as this would be a wish list of projects more than an actual plan.</p> <p>Mr T Hawkins said that the Action Plan was very important to take projects forward. He referred to Priority E, "Develop Skills and Career Opportunities", and said it was important that the industry contributes to the Skills Audit to define future training needs, and it would be helpful for the NAFC to know whether certain courses should be extended, or whether there was an indication that new courses would be required in the future. The Interim Head of Economic Development advised that it was proposed that the Skills Audit would be discussed at the Panel meeting in September. In response to a question from Mr Black, the Interim Head of Economic Development advised that the intention was that the Skills Audit would be carried out by EDU staff. Mr Hawkins advised that the College could assist by providing information on the courses, student attendance and projected</p>	NAFC

	<p>need. Mr L Tait commented that a priority could be courses that are a legal requirement for the fish catching sector.</p> <p>The Interim Head of Economic Development highlighted the shortage of training places for apprentices. Mr Hawkins said that if the industry could come forward with priorities for additional training requirements he believed that the Scottish Funding Council would consider the request favourably. Dr Napier commented that it would be important to distinguish the statutory requirements for fishermen, compared to training that is more voluntary in nature.</p> <p>Ms R Henderson suggested that the Seafood Project could be considered for EFF funding, through Axis 3. The Interim Head of Economic Development advised that he had discussed this with the Head of the EFF for Scotland, and the advice given was to submit the project to test the system.</p> <p>Mr Black enquired whether there could be any funding available to assist fishermen who had to take time off work to attend courses. Mr Hawkins said that there possibly could be scope for assistance on the loss of income element through the EFF, and the NAFC Marine Centre was preparing a project on those lines.</p>	<p>Industry/ EDU</p> <p>EDU</p>
04/08	<p><u>Safeguarding Our Fishing Rights. The Future of Quota Management and Licensing Scotland – A Consultation Paper</u></p> <p>The Panel considered a report by the Project Manager (S Keith) (RECORD Appendix 3).</p> <p>The Project Manager introduced the above consultation paper, and advised that the author of the Consultation Paper would be visiting Shetland next week to meet with representatives of the fish catching sector.</p> <p>Mr B Isbister provided the Panel with some background information on the consultation, which had been ongoing for four years. He outlined a contentious element in the paper regarding the identification of the Scottish quota at the outset. As regards protecting fishing communities, he reported that what Shetland is trying to achieve is recognised in the proposals, and it is important to make sure that is the outcome of the process. Mr Isbister provided the Panel with some information on the proposed meetings with the author of the paper, when he visits Shetland next week, and said that he would provide further details of the times and venues.</p> <p>Mr J G Simpson said that this was a very complex issue and the SIC has to be guided by the industry to assist to strengthen their case.</p>	<p>BI</p>

	<p>Mr L Tait said that a significant strength for fishermen and for the whole of Shetland was the community owned quota system, and the Council should be commended on the process in place for purchasing quota. Mr R Simpson added that the quota system was carrying the industry forward.</p> <p>In response to a suggestion from Dr Napier, Mr J G Simpson agreed that given the importance of the issue to Shetland, the Council could also provide a response, and would be guided by feedback from the industry. Mr B Isbister proposed that the Council's response could be submitted through SHOAL, and it was further suggested that the response could target specific areas for example, the community quota element.</p> <p>In response to a question from the Interim Head of Economic Development, Mr Isbister advised that the proposed timescale for the development of the separate Scottish Management System inside the UK was 1 January 2009.</p>	EDU SHOAL
05/08	<p><u>Quota Purchase</u></p> <p>The Panel considered a report by the Project Manager (S Keith) (RECORD Appendix 4)</p> <p>During the discussion, Dr I Napier commented that should the proposals be agreed from the Consultation on "Safeguarding Our Fishing Rights, the Future of Quota Management and Licensing Scotland", additional quota would be on the market, and Shetland should be in a position at that time to purchase additional quota.</p> <p>Mr G Spence said that he was aware that quota could be purchased cheaper now than had previously been the case, and suggested that the Council should allocate money to allow the fishing industry to be in a position buy additional quota when the situation arose. Some discussion took place on the reaction when it becomes public knowledge that money has been allocated to purchase quota, and it was noted that the information would come into the public domain when a report is presented to Development Committee and Council.</p> <p>In response to a question regarding State Aid issues, Mr B Isbister said that the scheme could go a long way to demonstrate that it is run at commercial rates. Mr H Black said that it was agreed at UK and EU level that the concept and principles of community quota was fully supported. The Interim Head of Economic Development said that there were two possible routes and there were risks with either route, to be confident that what is being done is commercial, or to submit the proposals to the State Aid office to ensure it meets their requirements. Mr B Isbister</p>	

	<p>said that the matter required careful consideration and he would recommend that the State Aid advice should be sought.</p> <p>In response to a question from the Interim Head of Economic Development, Mr G Spence considered that there was still a need for the Delegated Quota scheme to run along with the Community Quota scheme, as the loan scheme demonstrates confidence for the local fishermen.</p> <p>Dr Napier referred to the public perception issue and said that there was a degree of misunderstanding and a lack of knowledge on the benefits of how securing quota could benefit Shetland, and suggested that the report to Committee should fully explain the benefits.</p> <p>In response to a question from the Project Manager, the Panel agreed that the Delegated Quota scheme should continue.</p>	EDU
06/08	<p><u>Fishing Vessel Licences</u></p> <p>The Panel considered a report by the Project Manager (S Keith) (RECORD Appendix 5).</p> <p>The Project Manager introduced the report and advised that changes to the legislation have been ongoing since 2003 and it is anticipated that the new legislation will be approved during 2009, which should extend the expiry dates of licences from 3 years to 5 years.</p> <p>In response to a question from Mr J G Simpson, Mr R Simpson said that he was confident that the current dispensation would be extended.</p> <p>Some discussion took place regarding the expected new licensing rules, however the Panel noted that these would only be identified following approval of the new legislation.</p> <p>The Interim Head of Economic Development advised that he would propose to prepare an information report on Fishing Vessel Licences to Development Committee.</p>	EDU
07/08	<p><u>Fishing Vessel Equity</u></p> <p>The Panel considered a report by the Project Manager (S Keith) (RECORD Appendix 6).</p> <p>The Project Manager introduced the report and advised of the mechanism in place for the SDT to provide equity to whitefish vessels. She advised that steps have been taken to make the equity scheme more robust in regards to State Aid issues, and</p>	

	<p>following legal advice, it has been agreed that a clause referring to the Trust receiving a share of any increase in net asset value has been included in the Shareholders Agreements.</p> <p>Mr R Simpson said that the equity scheme has worked very well, with the SDT investing in 6 new boats in Shetland. However he had a concern that the partnerships cannot get any percentage of the profits, as these have to be reinvested in the vessel, and the additional clause regarding the increase in net assets had been fundamentally wrong and unfair to the fishermen. Mr H Black said that he had believed the spirit of the scheme was to assist projects to go ahead, and to help to rebuild the sector, and not to maximise the profits to the EDU. Mr J G Simpson said that he did not accept that the EDU had overreacted, however State Aid issues were very complex and it was necessary for the scheme to be State Aid compliant.</p> <p>Mr G Spence stated that the equity scheme had been very successful and had resulted in a significant number of additional jobs on boats and associated businesses coming to Shetland. Mr B Isbister said that the concept of fleet modernisation was a fundamental aim, and it was important not to lose sight of the benefits of the Scheme but he considered that the State Aid perception argument should be examined and he suggested revisiting the terms of the agreements in place.</p> <p>Mr J G Simpson said that the view from the Panel would be taken on board and the scheme would be revisited, in consultation with the industry.</p> <p>Mr G Spence suggested that the scheme could be amended to become a more straightforward equity scheme, rather than a shareholders scheme.</p> <p>The Interim Head of Economic Development said that there has to be confidence that the scheme would be State Aid compliant.</p> <p>The Panel agreed that different options for this scheme should be considered, and that a report would be presented to a future meeting of Development Committee.</p>	EDU
08/08	<p><u>State Aid Cases</u></p> <p>The Interim Head of Economic Development reported that there had still been no decision on the First Time Shareholder Grant scheme. The Council has submitted an appeal against the case to the European High Court, however it could take over a year before the appeal is heard. He added that in the meantime the Commission should make a decision on the first time shareholders, but may wish to wait until the appeal case is heard.</p>	

	<p>Mr Tait enquired whether the SFA's support would be beneficial. The Interim Head of Economic Development said that further pressure on the Commission should be advantageous, particularly as regards socio economic issues.</p> <p>The Panel noted that the European Commission deemed that the Fish Processing and Salmon Farming Loan Schemes had been operating correctly.</p> <p>The Interim Head of Economic Development advised that a report on the draft State Aid Compliance manual would be presented to Development Committee in August.</p> <p>-----</p> <p>Mr D Sandison provided the Panel with an update on the trade dispute as regards the minimum import price for salmon from Norway to the EU.</p> <p>Mr Sandison advised that he had recently attended a meeting to discuss the final draft report of the Comparative Cost Study on the Production of Salmon in Norway, Chile and Scotland. The Panel noted that the findings from the Comparative Study would be reported to a future meeting of the Panel.</p>	<p>EDU</p> <p>DS</p>
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The meeting concluded at 12.15pm.