



# **Shetland Islands Council**

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## **REPORT**

**To: Development Committee**

**05 June 2008**

**From: Agricultural Development Officer**

**DV026-F**

### **Options for the Development of Abattoir Facilities in Shetland**

#### **1.0 Introduction**

- 1.1 This report appraises current abattoir provision in Shetland, and the options available for the development of this service for the benefit of the local agricultural and food industries.
- 1.2 The following options for future slaughter provision in Shetland and their respective implications are explored in detail in the report:
  - Option A - Provide no further investment in facilities at this time;
  - Option B - Upgrade existing facilities;
  - Option C - Build a new abattoir facility.
- 1.3 The report includes estimates for the capital investment required for each option, the funding packages available to enact each option, and indicative operational models for each option.
- 1.4 The Development Committee is asked to consider the options available and make a decision regarding:
  - how the Council should engage with assisting the development of abattoir provision in Shetland, and;
  - the funding mechanism by which the Council can assist the development of abattoir provision in Shetland.

#### **2.0 Links to the Corporate Plan**

- 2.1 The Corporate Plan contains policies to encourage sustainable development. Specifically, the policy to “Ensure all assistance schemes help towards funding market-led solutions” relates closely to the agricultural subject of this report.

### 3.0 Background

- 3.1 On 7 December 2006, Shetland Development Trust (SDT) considered a report on the very same issues the Development Committee are currently asked to consider – “Options for the Development of Abattoir Facilities in Shetland” (see Appendix 1 <http://www.sic.gov.uk/services/edu/default.asp> ).
- 3.2 Taking into account background studies performed to date at the time (being the “Study into the Future for Livestock Production in Shetland” and the “Shetland Abattoir Feasibility Study”, (July 2005 & November 2006 respectively), both prepared by Peter Cook & Partners), the SDT report made the following recommendations:
- “10.1 It is recommended that Trustees agree in principal to investing resources in developing Shetland’s slaughtering provision.
- “10.2 It is further recommended that Trustees defer making a decision on the development options until a full appraisal can be made on upgrading existing facilities.
- “10.3 If the Trustees wish to select Option C [note – this option was “Build a New Abattoir Facility”] it is recommended that operators are sought who can demonstrate viable use of the new abattoir prior to any capital investment being made and that the full report be presented for consideration and decision by the full Council.”
- 3.3 Some trustees did not agree with some of the appraisals contained in the report, particularly regarding the constraints on public funding imposed by State aid legislation. Accordingly, an alternative motion was tabled to propose the following:
- “The Shetland Development Trust believes that there is an urgent need for a meat processing and abattoir facility to be provided as an essential piece of infrastructure in Shetland, which is available on equal terms to all users. The Shetland Development Trust proposes to set aside up to £3 million for the purpose of providing it.
- “The Shetland Development Trust recommends to Shetland Islands Council that this project be taken forward, and that a team be set up to bring it to completion.”
- 3.4 This motion was approved by the Trust and a figure of £2.4m was agreed as a budget, based on the indicative costs identified in the “Shetland Abattoir Feasibility Study”.
- 3.5 This decision was ratified by Shetland Islands Council on 8<sup>th</sup> February 2007, and the Council’s Economic Development Unit staff, working alongside SDT staff, subsequently attempted to realise the terms of the decision.

- 3.6 Progress was made identifying a site at Staneyhill, adjacent to the existing Marts buildings. An initial design was put out to public consultation in March 2007, and some amendments to the design were taken into consideration, i.e. regarding chill capacity. The Council's Capital Programme Service undertook to oversee the design of the facility, and in the course of revising the design and providing sufficiently detailed plans, it became apparent that the £2.4m budget was speculative and likely to fall short of the final project cost.
- 3.7 The Industry Consulting arm of the Meat & Livestock Commission (MLC) was engaged to provide a design and indicative cost for a facility suitable for Shetland's needs – not a “gold-plated” design. Their “very budget costings” (see Appendix 2) provided a total cost of £3.1m, provided with the following caveat, “I would not be surprised if the cost rose to between £3.5m - £4.0m”.
- 3.8 Meanwhile, development staff sought clarification from the Scottish Government State Aid Unit regarding funding packages by which a new abattoir could be legally built using public funds. A portfolio of five possible funding packages was constructed, all built around the guiding principle that such an abattoir would be a piece of public infrastructure, access to which would be available to all on equal terms. Initial feedback from the State Aid Unit was not encouraging – the assumption that an abattoir was a piece of essential public infrastructure and thereby exempt from State aid legislative requirements was held to be incorrect and misplaced.
- 3.9 In the light of this development, on 23 January 2008 the Council's Agricultural Development Officer and the Chairman of the Council's Agricultural Panel met with Scottish Government and DEFRA officials to clarify the circumstances under which a new slaughterhouse *could* be built in Shetland. The guidance received was explicit and unequivocal, as follows; the only way the Council could legally invest in the building of a new slaughterhouse was as the provider of 50% of the cost of the project. The remaining 50% would have to come from a private source.
- 3.10 The only potential situation under which this could be varied would be under circumstances of actual or imminent market failure, whereby both operators of the existing facilities have either ceased operation or can demonstrate that their demise is imminent. In these circumstances the Council could prepare a case to be submitted to the EC as a non-paper outlining the positive socioeconomic / welfare / environmental impact a functioning slaughterhouse would provide for Shetland. Furthermore, this non-paper would need to determine the need for the Council to build and/or operate the facilities in the absence of anyone else from the private sector to fulfil this role. Finally, the non-paper would need to demonstrate that the agricultural industry would build their markets in the meantime to a point at which the Council could sell the facilities back to a private operator at a commercial price within a reasonable timescale, i.e. 5-10 years.  
**There is no guarantee that Shetland could construct such a**

**compelling case, nor that the EC would look favourably upon such a request.**

- 3.11 These two scenarios were explained to the Agricultural Panel on 25 January 2008. In the ensuing discussions, it was noted that there were no accurate and contemporary figures for the cost of the alternative option, that of upgrading the two existing facilities at Boddam and Laxfirth. It was therefore agreed that the Council should commission John Goodman of MLC to evaluate the condition of the existing facilities.
- 3.12 MLC Industry Consulting were commissioned, with the cooperation of the respective slaughterhouse operators, to undertake an inspection and evaluation of those facilities and determine the following:
- The minimum work required and indicative costs to enable each plant to meet the current and future legislation (all premises involved in slaughtering, cutting, processing or retailing meat or meat products are covered by the new EU food hygiene legislation enacted on 1 January 2006);
  - Provide details of indicative costs for any improvements thought necessary by the operators to increase throughput and make their respective plants more efficient and profitable.
- 3.13 John Goodman visited Shetland during 17-19 March 2008, spending a day at each facility. Neither was slaughtering on that day, but he was able to examine the facilities in detail and speak to staff from each facility. NB – by this time MLC Industry Consulting had become AHDBms Consulting. John Goodman's report "Inspection and evaluation of Boddam and Laxfirth slaughterhouses" (see Appendix 3) was distributed to both current operators for feedback, and discussed by the Agricultural Panel on 9 May 2008. (The Agricultural Panel minute is attached as a later item on the agenda).

#### **4.0 Analysis of Service Need**

- 4.1 The agricultural industry in Shetland has in recent years placed more emphasis than hitherto on the value of finishing stock in Shetland, either for local consumption or to export under various Shetland-specific brands. Numbers of sheep slaughtered at the two existing operational facilities in Shetland increased by a factor of 325% between 2004 and 2006 (2007 being anomalous following the national Foot & Mouth Disease outbreak), rising to a total of 14,105 sheep and lambs in 2006. The numbers of cattle and pigs slaughtered in Shetland however have declined, by 75% and 77% respectively in the same period. In 2006 103 cattle and 89 pigs were slaughtered in Shetland.
- 4.2 Consumers, particularly in the UK have become more affluent and prepared to pay a premium for high quality red meat with a strong story behind it. This was confirmed by independent market research in

the Promar International report “Developing the Opportunity for Shetland in the Premium Meat Market” (Promar 2005).

- 4.3 There exist further opportunities for future growth in the numbers of sheep, cattle and pigs slaughtered in Shetland. The potential market for air-dried mutton (vivda) to export to Faroe and Denmark could lead to a further 6,000 old, cast ewes needing slaughtering annually. The light lamb market in Europe remains largely untapped. Finally, the domestic Shetland market for beef and pork is clearly under-supplied by locally produced meat at present, and there exists scope to increase the current low numbers.
- 4.4 However, these figures (actual and speculative) need to be set in the context of the larger market for livestock produced in Shetland, namely export as store animals for finishing in the more clement climate and larger units elsewhere in the mainland UK. In 2006 81,409 sheep and 2,158 cattle were exported from Shetland.
- 4.5 Moreover, rising oil prices are dramatically impacting on the viability of agriculture as a whole, and finishing stock in particular. The cost of fuel, fertiliser and feed has risen spectacularly in the past 4 years – fertiliser alone has quadrupled in price. Finishing stock requires over-winter feed, in the form of silage, locally grown fodder crops, or imported feed concentrates. These are all increasingly expensive inputs, particularly in the context of Shetland’s remote location and extremely short summer growing season.
- 4.6 Subsidies and grants have over the past 20 years formed an increasingly central part of the Shetland agricultural industry’s income. The Scotland Rural Development Plan (SRDP) is the Scottish Government’s vehicle to deliver agricultural subsidies in the period 2007-2013 – early indications are the Shetland will see reduced levels of agricultural subsidy in this period.
- 4.7 In 2007/2008 finished sheep-stock has commanded better than average prices, giving some hope to the agricultural industry that these higher production costs will be offset by better returns. This sense of renewed optimism is compounded by the daily reports of a global food shortage, and thereby increased demand for their produce.
- 4.8 This optimism may well be misplaced, as it ignores the factor of price volatility. All the European Commission’s market forecasts through to 2014 warn that for the major commodities (with the possible exception of beef) prices will be more volatile than in the past. Higher food prices do not necessarily translate into higher margins for the agricultural industry, as simple supply and demand is coloured by global speculators and volatile currency rates, resulting in wildly swinging commodity prices.
- 4.9 Markets for Shetland sheep meat are as follows:
  - 4.9.1 Domestic (Shetland)

Homekill accounts for an estimated 20,000 sheep per annum. Figures of this unregulated procedure are necessarily imprecise, but approximately 2,000 sheep per annum are killed at Laxfirth as homekill. A growing number of crofters prefer to have their homekill dealt with by professionals in a dedicated slaughter environment, rather than by themselves on their own steadings. This is set to increase as regulations become more stringent and the skills to slaughter at home are less prevalent.

The Council is currently moving towards a position whereby local food procurement assumes the importance it rightly should have. A significant increase in demand for lamb, mutton and beef can be expected if Shetland's publicly run institutions take regular deliveries of locally finished meat as a matter of course. This is part of a national trend towards recognising the importance and nutritional value of fresh local food, and it is reasonable to expect that the NHS will in time change its procurement policy to reflect this also.

#### 4.9.2 National (UK)

Market research undertaken by Promar International in 2005 determined that intense competition by major retailers, particularly in terms of pricing has led to a market in which the future lies in creating niche premium products. Rising levels of disposable income amongst consumers, a growing media-driven interest in food generally, and rising consumer confidence with red meat following the BSE and FMD food scares all point towards a willingness amongst consumers to buy greater quantities of high quality red meat products. Demand is currently highest for beef, followed by lamb in second place.

Currently Shetland lamb is virtually unknown in the UK market, with only a few independent producers selling small quantities of lamb from the Shetland breed (incidentally, in breach of the Protected Designation of Origin awarded to Shetland Lamb) and one Shetland-based producer successfully selling small amounts of lamb and beef via independent retail outlets in Edinburgh and London. However, Promar's research confirmed that the marketplace as a whole showed interest in the relatively unknown premise of Shetland lamb. The 'story' as a whole behind the product was considered to be strong and unique, provided that the product was of consistent quality and taste, and came with unimpeachable traceability.

Potential customers for Shetland lamb (and to a necessarily lesser extent beef) in the UK are multiple retailers; independent retailers; intermediaries (wholesale and catering butchers); chefs; and direct sales to consumers. The Promar market research provided SLMG with contact details of interested parties from across the customer spectrum, from

supermarkets, restaurants, wholesale and catering butchers, with the caveat that the volumes required by multiple retailers may represent a more long-term opportunity – Promar considered that for the UK market, “Shetland meat needs to create an element of exclusivity with regard to product, and multiple retail may not be the best route to achieving this”.

#### 4.9.3 Scandinavian (currently Faroe & Denmark)

Given Shetland’s proximity to Scandinavia and elements of shared culture, Shetland is in a strong position to exploit its proven ability to produce lamb and mutton. Meat consumption as a whole is high in Scandinavia; for example, in Faroe alone an average of 18kg of dried sheep meat is consumed per capita per annum. The population of Faroe and Faroese expatriates in Denmark numbers approximately 63,000 individuals. The implication of this is a total annual market for dried sheep meat alone of 1.1million kg, or 75,600 sheep. Demand outstrips supply, and work undertaken by Aberdeen University has established the means to produce air-dried sheep meat in a manner that will satisfy EU environmental health legislation. Air-dried sheep meat, or vivda as it was formerly known in Shetland commands a premium price amongst the Faroese community.

The Scandinavian market is not confined to Shetland-produced vivda; in 2005 Pure Shetland Lamb Ltd identified in their May 2005 Business Plan the opportunity to export fresh consumer packs, primals and reestit mutton to the Faroese market. Pure Shetland Lamb Ltd anticipated that 30% by volume market share for Shetland sheep meat was attainable in Faroe by the end of the 2005/06 financial year – unfortunately this was not realised, due to a combination of uncertainties over the Smyril link to Faroe, and a lack of slaughter and processing capacity in their current premises. The Faroese market therefore remains a proximate and enticing prospect for Shetland producers, albeit one constrained by transport links.

#### 4.9.4 Southern European

Lamb continues to form a strong market in Southern European countries, notably Portugal, Spain, Italy and Greece. More than anything, Shetland’s distance from market has precluded any exploitation of this latent potential, although anecdotal evidence suggests that a number of lambs exported from Shetland as stores end up in mainland Europe. In August 2006, Pure Shetland Lamb Ltd announced a contract to export 20,000 lambs to Italy by December 2006. While this figure was not attained in 2006 (approximately 50% of the target was met), and Foot & Mouth Disease halted all

exports in 2007, it is reasonable to expect this market to still exist for 2008 onwards.

#### 4.9.5 Local Beef Market

Beef is a woefully underexploited resource in Shetland. Whilst the generally poor quality of much of the Shetland landmass predicates against significant numbers of beef stock, there is nevertheless a potential market domestically at least for locally reared beef. The “Red Meat Processing & Marketing in the Highlands & Islands” report (2002) identified that beef consumption in Shetland was at a level equivalent to 1,200 carcasses per annum. It is within Shetland’s means to meet a higher proportion of this consumption than is currently attained (see section 4.14).

In 2006, 103 beef cattle were slaughtered in Shetland. SLMG’s facility at Laxfirth is unable to slaughter cattle, and a proportion of the agricultural industry appear to find the end-product of the beef slaughter and cutting process at the facility at Boddam does not meet their expectations. It would be pertinent to state that this latter point is certainly attributable to the limitations of the facility itself rather than any failing on the part of the operators.

- 4.10 In 2005, the Council commissioned an independent analysis of future livestock numbers in Shetland, taking into account recent trends, external influencing factors, and likely industry reactions to the aforementioned. The subsequent report provided three possible scenarios for finished livestock numbers in Shetland in 5 and 10 years time. These are summarised in Table 1 below, which shows figures for finished lamb production:

	<b>Scenario 1 Higher numbers</b>	<b>Scenario 2 Recent trends continue</b>	<b>Scenario 3 Lower numbers</b>
Lamb production – 5 years	145,650	145,650	125,500
Lamb production – 10 years	163,150	142,500	104,300
<b>Assumption 1. Finishing subsidy continues.</b>			
Sold finished %			
5 years	10%	15%	20%
10 years	10%	20%	30%
Numbers sold finished			
5 years	14,565	21,848	25,100
10 years	16,315	28,500	31,290
<b>Assumption 2. No finishing subsidy.</b>			
Sold finished %			
5 years	5%	5%	10%



10 years	5%	10%	20%
Numbers sold finished			
5 years	7,282	7,282	12,550
10 years	8,158	14,250	20,860

Table 1 – anticipated numbers of lambs produced and finished in Shetland

Source: *Study into the future for livestock production in Shetland, July 2005.*

- 4.11 The above suggests, in 10 years time, a minimum future finished lamb total of around 8,000 head per annum and a maximum of approximately 31,000. In 5 years time the above suggests a minimum of 7,000 finished lambs available and a maximum of 25,000.
- 4.12 In the past, the Council offered a grant to address the additional costs incurred by the agricultural industry over their counterparts finishing lamb elsewhere in the UK. This Finished Lamb Scheme was paid on a headage basis; this scheme was stopped when it came to the Council's attention that legislatively it was deemed to breach state aid as a potential distortion of competition. The forecast above predated this development, but took this into account by providing two assumptions.
- 4.13 While it is currently not possible to continue with the Finished Lamb Scheme as it existed previously, it has however been possible to provide assistance under the Shetland Agricultural Business Scheme de minimis provision, in the form of a payment of £350/ha towards crops grown for winter fodder. There has not been much adoption of this measure, either reflecting the fact that the majority of lambs produced are not finished in Shetland, or the relatively low agricultural de minimis ceiling inhibiting which measures producers choose to adopt.
- 4.14 In addition to the need for capacity to slaughter lamb there will be need for the provision to slaughter cattle and homekill sheep. The homekill number is not known and is difficult to derive, as previous numbers are not recorded, (see section 4.9.1). The following table shows the possible scenarios for future cattle slaughter identified in the 2005 livestock numbers study.

	<b>Scenario 1 Strong Store Trade + Env. Support</b>	<b>Scenario 2 Decline in Store Trade + Less Env. Support</b>
Cattle for Slaughter - 5 years	200	200
Cattle for Slaughter - 10 years	200	400

## 5.0 Existing facilities

- 5.1 There are two operational abattoirs in Shetland:

- Laxfirth – operated by Shetland Livestock Marketing Group (SLMG), subtenants of the Shetland Abattoir Cooperative Ltd, and owned by SLAP;

- Boddam – operated by Pure Shetland Lamb Ltd, and owned by SDT.

Both facilities were evaluated in 2005 by Peter Cook & Partners (see Appendix 1 attachments), and latterly in March 2008 by John Goodman of AHDBms Consulting (formerly MLC Industry Consulting) (see Appendix 3). From 1 January 2006 new EU food hygiene legislation has been applied throughout the EU. All premises slaughtering, cutting, processing or retailing meat and meat products are covered by these regulations. Therefore for the purposes of this report, the AHDBms Consulting report will form the basis of the evaluation of both existing facilities.

## 5.2 Laxfirth abattoir

5.2.1 **Licence:** The abattoir at Laxfirth has been issued with full approval by the Food Standards Agency (FSA) to slaughter sheep and goats only (ref. AFC1137). The facility is operated under full Veterinary and Meat Hygiene service supervision.

5.2.2 **Condition:** John Goodman concluded that “the plant is generally in good condition”, both internally and externally. He did however detail 24 points as problems either identified by himself or the SLMG manager during his inspection. He qualified these by noting that these items would have also been noticed during the inspection by the Veterinary Meat Hygiene Advisor (VMHA) when carrying out the FSA re-licensing visit. The VMHA would then judge if these problems are serious enough for the license to be withheld. Clearly these problems were not deemed to be serious, as the FSA re-licensing visit resulted in a full license being granted (see section 5.2.1).

Note this license was granted **after** the 1 January 2006 new EU meat hygiene legislation was enacted, and therefore the VMHA (Peter Austin) would have to have taken it into account.

5.2.3 **Minimum upgrade:** John Goodman had not seen the Laxfirth abattoir’s full license, and so assumed that in order to achieve a full license, the following upgrades would be required:

- A separate temperature controlled cutting room;
- A dispatch dock suitable for dispatching both carcass and wrapped products;
- Additional internal fittings to existing cutting room to provide temperature control and additional space.

The estimated costs for this work are summarised below:

Additional Cutting Room	12 m <sup>2</sup>	£1,100	£13,200
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New Dispatch Chill Room	16 m <sup>2</sup>	£900	£14,400
New Dispatch Dock	12 m <sup>2</sup>	£1,100	£13,200
Subtotal			£40,800
Total inc 25% extra for island working (per John Goodman)			<u>£51,000</u>
Total inc 40% extra for island working (per SIC EDU)			<u>£57,120</u>

5.2.4 Upgrade requested by current operator (SLMG) : the following full redevelopment of the Laxfirth abattoir would increase throughput by a factor of 100%. The following upgrades to the existing facility would be required:

- A mechanised slaughterline with mechanical punchers and a pelt puller;
- A second chill room;
- A cutting room with bone store;
- A packaging store;
- A dispatch chill room for packaged product;
- Additional offices and amenities.

The estimated costs for this work are summarised below:

Improved slaughterline			£30,000
New Railed Chill Room	78 m <sup>2</sup>	£1,100	£85,800
New Cutting Room	42 m <sup>2</sup>	£1,100	£46,200
New Dispatch Chill Room	44 m <sup>2</sup>	£900	£39,600
New Dispatch Bay	16m <sup>2</sup>	£1,100	£17,600
New Packaging store, amenities, offices etc.	112m <sup>2</sup>	£650	£72,800
Subtotal			£292,000
Total inc 25% extra for island working (per John Goodman)			<u>£365,000</u>
Total inc 40% extra for island working (per SIC EDU)			<u>£408,800</u>

5.2.5 It should be noted that the cost for either upgrade detailed above does not include any provision for professional fees, or any contingencies, both of which should be budgeted as an additional 10% of the project cost respectively. Furthermore, land acquisition is not included in the above totals – this is harder to quantify, but should not be forgotten.

5.2.6 Therefore, excluding land acquisition, estimated costs for the upgrade of Laxfirth are as follows:

Minimum upgrade (£57,120 + 20%)	-	£68,544
Full upgrade (£408,800 + 20%)	-	£490,560.

5.2.7 **Current Activity:** The Laxfirth facility is used to slaughter lambs/sheep for the domestic and national market. There is also a significant number of lambs going through the plant for homekill. SLMG's product website, [www.tasteshetland.com](http://www.tasteshetland.com), provides information on how their company focus for Shetland branded lamb and beef drives their business forward. Laxfirth provides cutting facilities for the development of their distinctive branded products. They sell to the higher value niche market for clients who appreciate the quality of Shetland produce. The prices paid to farmers reflect the higher sales value which in turns assist in the development of the wider Shetland agricultural industry as SLMG is run as a co-operative.

5.2.8 **Current Statistics:** Maximum daily throughput is 200 sheep as they are limited by chilled hanging space for the carcasses. At present the facility is operational 1 – 2 days per week.

5.2.9 **Future Opportunities:** The business plans to progress the sale of dried meat product to Faroe as well as build up its Shetland branded product.

### 5.3 Boddam abattoir

5.3.1 **Licence:** The abattoir at Boddam has been issued with full approval by the Food Standards Agency (FSA) to slaughter cattle, sheep, goats and pigs (ref. AFC1158). The facility is operated under full Veterinary and Meat Hygiene service supervision.

5.3.2 **Condition:** John Goodman concluded, "the main structure of the plant is in good condition but the finishes are poor". He detailed 15 points as problems either identified by himself or the operator during his inspection. He qualified these by noting that these items would have also been noticed during the inspection by the Veterinary Meat Hygiene Advisor (VMHA) when carrying out the FSA re-licensing visit. The VMHA would then judge if these problems are serious enough for the license to be withheld. Clearly these problems were not deemed to be serious, as the FSA re-licensing visit resulted in a full license being granted (see section 5.3.1 above).

Note this license was granted **after** the 1 January 2006 new EU meat hygiene legislation was enacted, and therefore the VMHA (Mr Sam Mansley) would have to have taken it into account.

5.3.3 **Minimum upgrade:** John Goodman had not seen the Boddam abattoir's full license, and so assumed that in order to achieve a full license, the following upgrade would be required:

- hygienic and easily cleanable yard surfaces;
- hygienic and easily cleanable amenities;
- hygienic route into the plant for staff and visitors via changing and hygiene areas;
- a railed out chill room (not to be used for any other purpose);
- stunning facilities suitable for each species;
- slaughterlines that reduce the amount of manual handling (and possible cross contamination);
- a hygienic route out of the slaughterhall for by-products.

The estimated costs for this work are summarized below:

New Lairage	27 m <sup>2</sup>	£650	£17,550
New Staff amenities	58 m <sup>2</sup>	£650	£37,700
New Slaughterhall	54 m <sup>2</sup>	£1,300	£70,200
New Railed Chill	45 m <sup>2</sup>	£1,100	£49,500
Refurnish and Rail existing Chill	52 m <sup>2</sup>	£1,000	£52,000
New Cutting Room	45 m <sup>2</sup>	£1,100	£49,500
New Dispatch Dock and store	30 m <sup>2</sup>	£1,100	£33,000
Subtotal			£309,450
Total inc 25% extra for island working (per John Goodman)			<u>£386,812</u>
Total inc 40% extra for island working (per SIC EDU)			<u>£433,230</u>

John Goodman considered that in the case of Boddam, the minimum upgrade option would in fact also represent a full upgrade, as he considered the facility almost unchanged since construction in the 1960's, and major upgrading would be needed to convert it into a modern food factory.

5.3.4 It should be noted that the cost for the upgrade detailed above does not include any provision for professional fees, or any contingencies, both of which should be budgeted as an additional 10% of the project cost respectively. Furthermore, land acquisition is not included in the above totals – this is harder to quantify, but should not be forgotten.

5.3.5 Therefore, excluding land acquisition, estimated costs for the upgrade of Boddam are as follows:

Full upgrade (£433,230 + 20%) - £519,876.

- 5.3.6 **Current Activity:** Pure Shetland Lamb has markets for milk lambs, cattle, pigs, Shetland lambs and ewes. In 2006 the business slaughtered large quantities of lamb and linking into product on the UK mainland for onward shipment to Italy. This represented an increase in throughput in 2006 by 637% on 2005. This was not repeated in 2007 due to the national export restrictions imposed during a UK Foot & Mouth Disease outbreak, but it is expected that in 2008 this trade will resume. Conversely their cattle numbers have dropped with a number of farmers preferring to either ship their animals for slaughtering as they find it more cost effective or not finish stock at all, selling it instead as stores for export on the hoof from Shetland.
- 5.3.7 **Current Statistics:** Maximum daily throughput is 400 sheep @ 35 per hour, 8 cattle @ 1 per hour and 20 pigs @ 5/6 per hour but this is limited by available hanging space. There is capacity to hang 400 sheep carcasses at any one time.
- 5.3.8 **Future Opportunities:** The business plans to expand its exports to mainland UK, Italy and France next year, whilst continuing to service homekill lamb and sheep and the slaughtering of cattle and pigs.

## 6.0 Options for Development

- 6.1 The options for development of slaughtering services to the benefit of the local agricultural industry which have been considered for this report are as follows:

Option A	–	Provide no investment at this time;
Option B	-	Upgrade existing facilities;
Option C	-	Build a new abattoir facility.

### 6.2 Option A – Provide no investment at this time.

- 6.2.1 Both abattoirs possess full operational licences, granted by the relevant body (the Food Standards Agency), and taking into account the current meat hygiene legislation. Despite a consultant identifying areas in which both facilities could be improved, there is no legal requirement for any improvements to be undertaken.
- 6.2.2 Were there to be circumstances in which works had to be undertaken in order for either facility to regain a full operational licence, neither SLAP as the owner of Laxfirth, nor SDT as the owner of Boddam have any legal obligation to pay for these works. In both cases, under the terms of their respective leases the tenants are required to undertake any necessary works to retain their operational licence.
- 6.2.3 With the rising costs involved in agriculture as a whole, and finishing livestock in particular, especially in a remote location

such as Shetland, there have to be serious doubts about the viability of the finished red meat producing industry in Shetland, particularly for export. There is nothing to indicate that current high retail prices for red meat are anything more than an artefact of price volatility, and the current retail model will ensure that long-term, such higher retail prices when they occur will not be passed back up the food chain to the primary producer or secondary processor.

### **6.3 Option B – Upgrade existing facilities**

6.3.1 Both abattoirs possess full operational licences, granted by the relevant body (the Food Standards Agency), and taking into account the current meat hygiene legislation. Despite a consultant identifying areas in which both facilities could be improved, there is no legal requirement for any improvements to be undertaken.

6.3.2 The operator of Laxfirth, SLMG has indicated that despite cooperating with John Goodman for the purposes of fulfilling his commission, the principle of upgrading Laxfirth is not acceptable to it.

6.3.3 The operator of Boddam, Pure Shetland Lamb has indicated that their preferred option would be to see Boddam upgraded (albeit they dispute John Goodman's figures, and consider an upgrade could be achieved at a lesser figure than he suggested). Pure Shetland Lamb do however consider that they could continue to operate in their existing premises without an upgrade, although this would by definition constrain the development of their business. Pure Shetland Lamb has provided a business plan by way of justification for the proposed upgrade of Boddam.

6.3.4 The business plan received from Pure Shetland Lamb Ltd needs further input regarding the investment request. The revised plan will be given consideration and further analysis as to its commercial viability and justification for investment, and at this point the mechanism by which an investment is made would be decided upon (Pure Shetland Lamb are currently assuming that the Council would use de minimis to fund this – see 7.2.1-6).

### **6.4 Option C – Build a new abattoir facility**

6.4.1 This Option can only be realised under one of two circumstances:

- A private developer approaches Scottish Government and the Council for financial assistance towards the building of

such a facility, on the basis that the private developer will provide at least 50% of the cost of the project, or;

- Both existing operators in Shetland (SLMG and Pure Shetland Lamb) agree to plead imminent market failure, thereby allowing the Council to put a case in the form of a non-paper to the EC for building a publicly owned abattoir facility, with a demonstrable and compelling case for the private sector buying it back from the Council within 5-10 years.

6.4.2 There has been no indication of any willingness in the past from any private developer in Shetland to provide 50% of the cost of a new facility.

6.4.3 While SLMG are prepared to adopt a position of imminent market failure, Pure Shetland Lamb is not. Without the cooperation of both existing operators, this mechanism cannot be initiated. The opinion of third parties as to the viability of either business is completely irrelevant, and the issue cannot be forced by a third party.

## 7.0 Options for funding mechanisms

### 7.1 Option A – Provide no investment at this time.

7.1.1 This option has no cost implication for the Council.

### 7.2 Option B – Upgrade existing facilities

7.2.1 The potential cost to upgrade each facility is as follows (refer to sections 5.2.6 and 5.3.5 above):

Minimum upgrade to Laxfirth*	£68,544
Full upgrade to Laxfirth*	£490,560
Full upgrade to Boddam *	£519,876

\* excludes provision for land acquisition

7.2.1 There are two mechanisms by which these upgrades could be funded with a public contribution:

- 50% private and 50% public contribution to the overall project cost. The public contribution would possibly qualify for assistance from the Scottish Government Processing, Marketing and Cooperation Grant Scheme, with any shortfall to the 50% intervention rate being made up from other public sources, i.e. the Council;
- Via the industrial de minimis mechanism, whereby a recipient can receive up to 100% of a project's costs, up



to a maximum of 200,000 euros in any rolling 3-year period.

- 7.2.2 Both SLMG and Pure Shetland Lamb have been explicit that they do not have the capacity to provide 50% of the cost of any of the above upgrades in section 7.2.1. Therefore the 50% private / 50% public mechanism is not viable.
- 7.2.3 Industrial de minimis provides the means by which the Council could fund, at its discretion, up to 200,000 euros in any 3 year rolling period. At current exchange rates this equates to approximately £160,000.
- 7.2.4 This would mean that the minimum upgrade to Laxfirth could be covered by industrial de minimis. The full upgrade to both Laxfirth or Boddam would not be possible to cover by industrial de minimis, as there would be a shortfall for both in excess of £330,000 at today's exchange rate. Neither SLMG nor Pure Shetland Lamb has the capacity to make up this shortfall.
- 7.2.5 Theoretically the only way full upgrades to either facility could be effected would be to phase the works over a 7-9 year period (thus allowing 3 applications of de minimis). There are obvious practical problems with this approach – the operational capacity of either facility would inevitably be curtailed, perhaps to the point of temporary closure while works were being undertaken, and a piecemeal approach to upgrading would mean that the benefits of the upgrades would be diffused and not immediately felt by either operator, or indeed their customers in the agricultural or retail sectors.

### **7.3 Option C – Build a new abattoir facility**

- 7.3.1 The most recent estimate for the cost of providing a new abattoir facility for Shetland capable of slaughtering 20,000 sheep, 1,000 cattle and 1,000 pigs per annum is in the region of £3.1m to £4.0m (refer to section 3.7 above).
- 7.3.2 There are two mechanisms by which a new abattoir could be funded with a public contribution:
  - 50% private and 50% public contribution to the overall project cost. The public contribution would possibly qualify for assistance from the Scottish Government Processing, Marketing and Cooperation Grant Scheme, with any shortfall to the 50% intervention rate being made up from other public sources, i.e. the Council;

- 100% by the Council with the sanction of the European Commission, on the grounds of actual or imminent market failure (see section 3.10 above).

- 7.3.3 Neither existing operator has the ability to meet 50% of the cost of a new abattoir. Nor has there been any expression of interest to date from any third parties indicating that they might be in such a position.
- 7.3.4 Shetland does not currently have circumstances of actual or imminent market failure with regard to abattoirs; one of the current operators (Pure Shetland Lamb) is clear that their business could continue to operate without any upgrades, and indeed their current Business Plan states that minor upgrades they made themselves in 2006 have improved efficiency, profitability, throughput and carcase quality. The requisite circumstances cannot be forced by the Council, the landlords of the properties in question, or independent third parties.
- 7.3.5 There have been suggestions that the Council should look to Europe to find a precedent elsewhere whereby the 50% public intervention rate has been exceeded. The UK Rep Agriculture and Fisheries Attaché, Nigel Barclay, has provided explicit advice, stating recently that the European Commission
- “just do not have the power to over-rule their own state aid legislation. If it says a maximum of 50% then they will stick to that” (per comm. 6 May 2008).
- 7.3.6 Furthermore, the Council’s Agricultural Development Officer has invested considerable time exploring the Official Journals of the European Commission. Every single notified state aid is listed here – there is not one single incident where an abattoir has been publicly funded in excess of the 50% intervention rate anywhere in the EU. Indeed, a typical aid intensity to abattoirs appears to be 28.5%.

## 8.0 Financial Implications

- 8.1 Option C (“Build a new abattoir facility”) is the default situation, as currently £2.4m is budgeted for the building of a new abattoir, on the basis of the decision made on 7 December 2006, and endorsed by the Council on 8 February 2007. This budget would cover the 50% maximum public intervention required to build a new abattoir, assuming a private developer came forwards.
- 8.2 If Option B (“Upgrade existing facilities”) were selected, the funds required would range from an estimated £68,544 to £1.1m (see section 7.2.1 above – the figure here makes an allowance for land acquisition). Funding for this would come either wholly (using industrial de minimis) or partly (50% public / 50% private contribution) from the Council.

- 8.3 Option A (“Provide no investment at this time”) releases a currently stagnant £2.4m into the Economic Development budget.

## 9.0 Policy and Delegated Authority

- 9.1 This report has been prepared based on Economic Development Policy number 8 which states “Shift the emphasis of the agricultural industry in Shetland to a market led economy which is less reliant on EU and UK subsidy payments” (Dev. Comm. Min. Ref. 01/08), (SIC Min. Ref: 55/08). The provision of a new community abattoir is a delivery mechanism of that policy.

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

- Economic Strategy
- Europe

As the recommendation of this report concerns the changing of an existing Council policy to build an abattoir, the Committee does not have delegated authority to make a final decision. Instead, a recommendation has to be made for the Council to take decisions on the report.

## 10.0 Conclusions

- 10.1 For the past 18 months the Council’s Economic Development Service has been attempting to find the legal means by which to deliver on the decision to 100% fund the building of a new abattoir for Shetland. This has proved impossible to deliver.

- 10.2 The following is clear and unequivocal:

- Any public investment in an abattoir in the EU **cannot** exceed 50% of the total project cost;
- There is **no** notified precedent elsewhere in the EU for this principle to be varied;
- The European Commission will **not** vary their own state aid legislation.

- 10.3 On this basis, the decision made by SDT trustees and the previous Council cannot continue to stand. A new decision on the Council’s future engagement with Shetland slaughtering facilities must be made in the light of our explicit current understanding of what assistance the public sector can and cannot make in this regard.

- 10.4 In the absence of a private developer funding at least 50% of the project cost, it is impossible for a new abattoir to be built in Shetland.

- 10.5 Upgrades of the existing two abattoirs are theoretically possible, funded either 50% public / 50% private, or 100% via a phased

application of industrial de minimis. One of the current operators (SLMG) does not want any further development of their facility. The other operator (Pure Shetland Lamb) would like the facility they lease to be upgraded via the industrial de minimis funding mechanism, and has provided a Business Plan in support of this aspiration. However, there are grave doubts as to how practical such a necessarily phased de minimis application would be on the operational capacity of the abattoir, and whether the Business Plan justifies such a large capital investment, particularly as the operator indicated that they could continue to work in their current facility if it remained unaltered.

- 10.6 Both current abattoirs have full licences to slaughter, and therefore there exists no legal requirement for any works to be undertaken.

## **11.0 Recommendations**

- 11.1 It is recommended that the Development Committee make a recommendation to the Council for decision as follows:
- a) annul the previous decision to 100% fund the construction of a new abattoir in Shetland;
  - b) agree that in the absence of a private developer prepared to fund at least 50% of the cost of a new facility, and the stated position of both current abattoir operators, the Council at this time should agree to provide no further investment (Option A).

Our Ref: JD/KLM  
Date: 30 May 2008

Report No: DV026-F



## **REPORT**

**To: Special Development Committee**

**22 June 2009**

**From: Head of Economic Development**

**DV068-F**  
**Development of Abattoir facilities in Shetland**

### **1.0 Introduction**

- 1.1 This report identifies the options for development of abattoir facilities in Shetland, and outlines the funding options available for the development of existing and /or new abattoir facilities. The report also recommends that a case is made to the EC for public funding of a new facility.

### **2.0 Links to the Corporate Plan**

- 2.1 The Corporate Plan contains policies to encourage sustainable development. Specifically, the policy to “Ensure all assistance schemes help towards funding market-led solutions” relates closely to the agricultural subject of this report.

### **3.0 Background**

- 3.1 The Development Committee considered a report on 5 June 2008, DV026-F, ‘Options for the Development of Abattoir Facilities in Shetland’ The report is attached in Appendix 1, because it contains a significant amount of relevant information. The decision taken by the Committee at that meeting was to (a) Encourage the agriculture community to establish for themselves whether or not there is a precedent for an abattoir being built without market failure but receiving public funds greater than 50%, (b) The Council provides funding not exceeding the maximum which can be released under delegated authority by the EDU for that purpose to an industry body with available de minimis, (c) In the event that a mechanism as outlined in (a) above is found, the Council provides political support alongside the Industry to achieve Commission approval, and, (d), the Council retains the budget sum of £2.4m for a new abattoir until 31 March 2010 to construct or

match Industry funds allocated to that project (min ref 18/08). The industry have apparently been unable to provide a mechanism as identified in (a) above.

- 3.2 In the course of debate at the Development Committee of 30 April 2009 the subject of abattoir provision in Shetland was raised, and more specifically the principle of building a wholly Council funded and operated community abattoir adjacent to the existing Marts complex at Staneyhill. It was agreed that the EDU commission a long-term strategy for the agricultural industry, and for a report to be submitted to the Development Committee on the outline and scope of a Strategy at the 27th August 2009 meeting (min ref 40/09).
- 3.3 With this aspiration in mind, and both existing abattoir operators currently in the process of considering development options for their businesses, it is considered timely to revisit the various options for the development of abattoir facilities in Shetland, and the mechanisms by which abattoirs may or may not be funded in the European Union and provide Members with clear advice as to how we can assist the agricultural community here in Shetland.

#### 4.0 Options

- 4.1 **Do nothing** – It is likely that without investment from the Council both existing abattoirs would close in the short term.
- 4.2 **Provide revenue support** – It is possible for the Council to provide the minimum amount of financial support to keep both abattoirs operating in the short term but demands on product quality, and operating efficiencies will make it increasingly difficult for both facilities to remain viable and deliver the required quality of service. Costs are in the region of £50,000 per annum per facility.
- 4.3 **Refurbish existing abattoir facilities** – Both existing facilities could be refurbished. And there now appears to be a funding mechanism to achieve this which is sustainable and state aid compliant. Costs are in the region of £300,000 to £750,000 per facility
- 4.4 **Build new abattoir facilities** – This provides the best technical solution especially if the new facilities are built adjacent to the marts facilities in Lerwick. However to date it has not been possible to identify a sustainable and state aid compliant funding model. Costs are in the region of £2m to £4m

#### 5.0 Funding Mechanisms recognised by the European Commission

- 5.1 There are two means by which public money can be provided as a direct aid to either upgrade an existing abattoir facility, or build an entirely new facility:
- Via a 50% private and 50% public contribution to the overall project cost, or;

- Via the industrial de minimis mechanism, whereby a recipient can receive up to 100% of a project's costs, up to a maximum of 200,000 euros in any rolling 3-year period.

## 5.2 50% private / 50% public contribution

The private contribution needs to be sourced from genuinely private funds. The public contribution would possibly qualify for assistance from the Scottish Government Processing, Marketing and Cooperation Grant Scheme, with any shortfall to the 50% intervention rate having the potential to be made up from other public sources, i.e. the Council.

## 5.2 De minimis

Using industrial de minimis, a recipient can receive up to 100% of a project's costs from a public source, i.e. the Council, up to a maximum of 200,000 euros in any rolling 3-year period.

5.2.1 Following the development of the global economic crisis in 2008, the European Commission announced in December 2008 a "Temporary framework for State aid measures to support access to finance in the current financial and economic crisis". A core measure of this Temporary Framework is that which raises the level of de minimis aid available to companies to 500,000 euros, provided the company in question entered into difficulty after 30 June 2008. The Temporary Framework explicitly highlights that this aid can "apply to undertakings active in the processing and marketing of agricultural products (as defined in Article 2.3 and 2.4 of Regulation (EC) 1857/2006)".

5.2.2 In summary, the Temporary Framework extends the scope to which public money can be applied to an existing abattoir operating business, provided that company can demonstrate that it entered into difficulty post 30 June 2008, and provided that any monies paid under the Temporary Framework are paid to the recipient.

## 6.0 **Alternative funding models**

- 6.1 It is possible that 100% publicly funded abattoirs do exist in the EU. What is clear is that they would exist only with the tolerance and forbearance of anyone outwith the European Commission itself who is aware of their existence. Such a facility would not (and indeed could not) be notified to the Commission, as its funding model would immediately be identified as in breach of State aid legislation. A State aid complaint regarding such a facility would inevitably be upheld, and the facility closed.
- 6.2 The only potential situation under which all the above could be varied would be under circumstances of actual or imminent market failure, whereby the operators of all the existing facilities have either ceased operation or can demonstrate that their demise is imminent. (Note that this is not the same as a business reporting that it is in difficulty). In these circumstances the Council could prepare a case to be submitted to the EC as a non-paper outlining the positive socioeconomic / welfare

/ environmental impact a functioning slaughterhouse would provide for Shetland. Furthermore, this non-paper would need to determine the need for the Council to build and/or operate the facilities in the absence of anyone else from the private sector to fulfil this role. Finally, the non-paper would need to demonstrate that the agricultural industry would build their markets in the meantime to a point at which the Council could sell the facilities back to a private operator at a commercial price within a reasonable timescale, i.e. 5-10 years. **There is no guarantee that Shetland could construct such a compelling case, nor that the EC would look favourably upon such a request. It is also likely that the process to achieve a dispensation of this nature with the EC could take many months if not years to achieve.**

- 6.3 One further possible mechanism could exist in that it would be possible for the Council to construct a facility and rent it out at a commercial market rate. The difficulty would be in a private sector operator being able to construct a sustainable business model that could afford to pay a commercial market rate.

## **7.0 Proposal**

- 7.1 That a case is prepared for a community abattoir using 100% public funding, and based on the argument of market failure, with the intention that the case is taken through the strongest and most appropriate representation to the European Commission.
- 7.2 That proposals from abattoir operators to refurbish existing facilities at Boddam and Laxfirth are considered in the meantime on their own merits, recognising however that this could diminish the case for market failure.

## **8.0 Financial Implications**

- 8.1 As this is an information report, there are no financial implications.

## **9.0 Policy and Delegated Authority**

- 9.1 This report has been prepared based on Economic Development Policy number 8 which states “Shift the emphasis of the agricultural industry in Shetland to a market led economy which is less reliant on EU and UK subsidy payments”. 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).
- 9.2 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



## **10.0 Conclusions**

- 10.1 There is a strong interest from a significant part of the agriculture industry for the development of a new publicly funded state of the art abattoir at the marts site in Lerwick, and indeed this would arguably provide the best technical solution for the agriculture industry.
- 10.2 The situation with regard to how a public authority may assist to either upgrade an existing abattoir facility or build an entirely new facility must comply with state aid legislation.
- 10.3 Because of the comparatively low throughput and seasonality it is not possible to construct a sustainable business model which can carry the capital costs of a new abattoir either at maximum 50% intervention or by de minimis. The only other possible mechanism for a new purpose built facility is to petition the EC for an exemption.
- 10.4 In the meantime it is important that investment is made in existing facilities, otherwise both businesses are in imminent danger of closing in the short term. However, it must be recognised that making the existing facilities sustainable will make a case for market failure very difficult to make.

## **11.0 Recommendation**

- 11.1 I recommend that the Committee note the contents of this report before considering the other reports on today's agenda.
- 11.2 I further recommend that the Development Committee instruct the Head of Economic Development to construct a case for an exemption.

17 June 2009  
NG/KLM/

Report No: DV068-F



COPY

9 April 2009

Our Ref: ISG/P503

Pure Shetland Lamb Ltd  
c/o M G Smith  
Brewview  
Robins Brae  
Dunrossness  
Shetland  
ZE2 9JQ

7 North Ness Business Park  
Lerwick, Shetland, ZE1 0LZ

t: 01595 692380  
f: 01595 692380  
e: info@garrickaccountancy.co.uk

Dear George

**Management Accounts**

**Review of Company's Financial Position as at 30 June 2008 and thereafter**

I refer to the recently prepared management accounts and the subsequent request for information from Shetland Islands Council seeking to establish whether the company is eligible for financial assistance under the de minimis measure for which assistance is now being sought.

I am able to offer the following information in relation to the questions raised by Shetland Islands Council concerning the year ended 31 March 2008 and for the period to 30 June 2008:

1. The company was profitable during these periods.
2. There were no losses therefore this question is not applicable.
3. Not applicable.
4. The turnover was increasing.
5. Stock levels are generally static as this is limited by storage space, i.e. increasing turnover will not lead to a significant adjustment in stock levels.
6. The company has excess capacity.
7. The cash flow was increasing during each of the above periods.
8. Debt levels were reducing during each of the above periods.

9. Interest levels were falling during these periods

10. Net asset value increased over the previous period both as at 31 March 2008 and 30 June 2008.

11. In our opinion, the company was not in difficulty as at 30 June 2008.

12. We are satisfied that the company would have been able to continue as a going concern for the next 12 months.

We have reviewed the financial information for the six months ended 31 December 2008 and produced management accounts for this period. It would appear that the company started to suffer a downturn in trade and profitability in August and September 2008 at a time when historically trade should be picking up. As the company had no cash reserves, cash flow difficulties arose quickly and consequently the company could be reasonably classed to be in difficulty by 31 December 2008. We are therefore satisfied that as the Profit and Loss Reserve declined by £10516 or 88.81% during the period from 1 July 2008 to 31 December 2008 the EC criteria in relation to the definition of a company in difficulty as a result of the global economic crisis have been met.

Yours sincerely



Iain S Garrick

**Dunn Jon@Development**

---

**Subject:** FW: Pure Shetland Lamb Ltd

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**From:** Dunn Jon@Development  
**Sent:** 14 April 2009 15:00  
**To:** Iain Garrick  
**Subject:** RE: Pure Shetland Lamb Ltd

Thanks Iain. I think Mr Smith will have forwarded the following email to you some time ago - we really need your professional opinion on the questions contained therein as applied to Pure Shetland Lamb in order to be certain as to which funding mechanism might be applied to the company.

Regards,

Jon

Magnie,

Now that Garrick's have come with this, they should be in a position to advise you and us on the critical issue of whether or not Pure Shetland Lamb Ltd entered into difficulty after 1 July 2008 - critical as this is the date at which the Temporary Framework (i.e. the 500,000 euro de minimis measure you are seeking to approach SIC for assistance under) applies the acid test of whether or not a company was in difficulty as a consequence of the global economic crisis.

In a nutshell, the auditors need to establish that a) Pure Shetland Lamb was not in difficulty on 30 June 2008, and b) that it subsequently (at a point from 1 July 2008 - present) satisfied the criteria for qualifying as an undertaking in difficulty. These criteria are set out by the EC for the purposes of the Temporary Framework as follows:

**"An SME shall be considered to be an undertaking in difficulty if it fulfils the following conditions:**

- (a) in the case of a limited liability company, where more than half of its registered capital has disappeared and more than one quarter of that capital has been lost over the preceding 12 months; or**
- (b) in the case of a company where at least some members have unlimited liability for the debt of the company, where more than half of its capital as shown in the company accounts has disappeared and more than one quarter of that capital has been lost over the preceding 12 months; or**
- (c) whatever the type of company concerned, where it fulfils the criteria under its domestic law for being the subject of collective insolvency proceedings."**

The auditors of the company need to answer the following questions about the company's position as at 30 June 2008, on the basis of the company's 2007 accounts plus management accounts to 30 June 2008:

1. Was the company incurring losses? Were those losses increasing?
2. (a) Was the company able to stem its losses (increasing or otherwise) from its own resources, or with funds obtained from its owners / shareholders or creditors?
- (b) If not, would the losses have put the company out of business in the short or medium term?
3. Had the company lost more than half of its registered capital? If so, was more than one quarter of that capital lost over the 12 months to 30 June 2008?
4. Was the company's turnover diminishing?
5. Did the company have growing stock inventories?
6. Did the company have excess capacity?
7. Was the company's cash flow declining?
8. Were the company's debt levels increasing?
9. Were the company's interest charges rising?
10. Were the company's asset values falling, or even nil?
11. On the basis of the above, do the auditors consider that the company was in difficulty as at 30 June 2008?
12. More specifically, would the auditors have been satisfied that the company would have been able to continue as a

25/05/2009

going concern for the next 12 months, or would the auditors have recommended to the directors of the company that they cease trading?

Furthermore, we need to know at which point subsequent to 1 July 2008 the auditors are satisfied that Pure Shetland Lamb satisfied the EC criteria listed above and could be formally classified as "in difficulty".

Regards,

Jon.

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REGISTERED NUMBER: SC254717 (Scotland)

**REPORT OF THE DIRECTORS AND  
UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008  
FOR  
PURE SHETLAND LAMB LIMITED**

Garrick Accountancy Services  
7 North Ness Business Park  
Lerwick  
Shetland  
ZE1 0LZ

**PURE SHETLAND LAMB LIMITED**

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FOR THE YEAR ENDED 31 MARCH 2008**

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**PURE SHETLAND LAMB LIMITED**  
**COMPANY INFORMATION**  
**FOR THE YEAR ENDED 31 MARCH 2008**

**DIRECTORS:** M G Smith (Junior)  
Mrs A C A Smith

**SECRETARY:** Mrs A C A Smith

**REGISTERED OFFICE:** The Abbatoir  
Out Voe  
Dunrossness  
Shetland  
ZE2 9JQ

**REGISTERED NUMBER:** SC254717 (Scotland)

**ACCOUNTANTS:** Garrick Accountancy Services  
7 North Ness Business Park  
Lerwick  
Shetland  
ZE1 OLZ

**PURE SHETLAND LAMB LIMITED**  
**REPORT OF THE DIRECTORS**  
**FOR THE YEAR ENDED 31 MARCH 2008**

The directors present their report with the financial statements of the company for the year ended 31 March 2008.

**PRINCIPAL ACTIVITY**

The principal activity of the company in the year under review was that of wholesale butchers.

**DIRECTORS**

M G Smith (Junior) has held office during the whole of the period from 1 April 2007 to the date of this report.

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

**ON BEHALF OF THE BOARD:**

M G Smith (Junior) - Director

24 March 2009

**PURE SHETLAND LAMB LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 MARCH 2008**

	Notes	31/3/08 £	£	31/3/07 £	£
<b>TURNOVER</b>			303,451		502,537
Cost of sales			253,201		416,810
<b>GROSS PROFIT</b>			50,250		85,727
Distribution costs		18,783		63,970	
Administrative expenses		25,821		24,878	
			44,604		88,848
<b>OPERATING PROFIT/(LOSS)</b>	2		5,646		(3,121)
Interest payable and similar charges			210		3,750
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>			5,436		(6,871)
Tax on profit/(loss) on ordinary activities	3		23		-
<b>PROFIT/(LOSS) FOR THE FINANCIAL YEAR AFTER TAXATION</b>			5,413		(6,871)

The notes form part of these financial statements

PURE SHETLAND LAMB LIMITED

BALANCE SHEET  
31 MARCH 2008

	Notes	31/3/08 £	£	31/3/07 £	£
<b>FIXED ASSETS</b>					
Tangible assets	4		14,090		12,787
<b>CURRENT ASSETS</b>					
Stocks		25,372		30,875	
Debtors	5	17,384		42,476	
Cash at bank and in hand		100		568	
		<u>42,856</u>		<u>73,919</u>	
<b>CREDITORS</b>					
Amounts falling due within one year	6	<u>47,042</u>		<u>82,215</u>	
<b>NET CURRENT LIABILITIES</b>			<u>(4,186)</u>		<u>(8,296)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>9,904</u>		<u>4,491</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	7		100		100
Profit and loss account	8		<u>9,804</u>		<u>4,391</u>
<b>SHAREHOLDERS' FUNDS</b>			<u>9,904</u>		<u>4,491</u>

The company is entitled to exemption from audit under Section 249A(1) of the Companies Act 1985 for the year ended 31 March 2008.

The members have not required the company to obtain an audit of its financial statements for the year ended 31 March 2008 in accordance with Section 249B(2) of the Companies Act 1985.

The directors acknowledge their responsibilities for:

- (a) ensuring that the company keeps accounting records which comply with Section 221 of the Companies Act 1985 and
- (b) preparing financial statements which give a true and fair view of the state of affairs of the company as at the end of each financial year and of its profit or loss for each financial year in accordance with the requirements of Section 226 and which otherwise comply with the requirements of the Companies Act 1985 relating to financial statements, so far as applicable to the company.

These financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and with the Financial Reporting Standard for Smaller Entities (effective January 2007).

The financial statements were approved by the Board of Directors on 24 March 2009 and were signed on its behalf by:

M G Smith (Junior) - Director

The notes form part of these financial statements

PURE SHETLAND LAMB LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2008

1. ACCOUNTING POLICIES

**Accounting convention**

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007).

**Turnover**

Turnover represents net invoiced sales of goods, excluding value added tax.

**Tangible fixed assets**

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Plant & machinery, motor vehicles: 25% reducing balance

**Stocks**

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

**Hire purchase and leasing commitments**

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

2. OPERATING PROFIT/(LOSS)

The operating profit (2007 - operating loss) is stated after charging:

	31/3/08	31/3/07
	£	£
Depreciation - owned assets	4,697	4,263
	<u>          </u>	<u>          </u>
Directors' emoluments and other benefits etc	-	-
	<u>          </u>	<u>          </u>

3. TAXATION

**Analysis of the tax charge**

The tax charge on the profit on ordinary activities for the year was as follows:

	31/3/08	31/3/07
	£	£
Current tax:		
UK corporation tax	23	-
	<u>          </u>	<u>          </u>
Tax on profit/(loss) on ordinary activities	23	-
	<u>          </u>	<u>          </u>

PURE SHETLAND LAMB LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 MARCH 2008

4. TANGIBLE FIXED ASSETS

	Plant and machinery etc £
<b>COST</b>	
At 1 April 2007	23,322
Additions	6,000
	<u>29,322</u>
At 31 March 2008	
<b>DEPRECIATION</b>	
At 1 April 2007	10,535
Charge for year	4,697
	<u>15,232</u>
At 31 March 2008	
<b>NET BOOK VALUE</b>	
At 31 March 2008	<u>14,090</u>
At 31 March 2007	<u>12,787</u>

5. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31/3/08 £	31/3/07 £
Trade debtors	12,365	30,598
Other debtors	5,019	11,878
	<u>17,384</u>	<u>42,476</u>

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31/3/08 £	31/3/07 £
Bank loans and overdrafts	2,898	-
Trade creditors	35,686	81,255
Taxation and social security	23	-
Other creditors	8,435	960
	<u>47,042</u>	<u>82,215</u>

7. CALLED UP SHARE CAPITAL

Authorised, allotted, issued and fully paid:				
Number:	Class:	Nominal value:	31/3/08 £	31/3/07 £
100	Ordinary	£1	<u>100</u>	<u>100</u>

PURE SHETLAND LAMB LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 MARCH 2008

8. RESERVES

	Profit and loss account £
At 1 April 2007	4,391
Profit for the year	5,413
At 31 March 2008	<u>9,804</u>

**PURE SHETLAND LAMB LIMITED**  
**REPORT OF THE ACCOUNTANTS TO THE DIRECTORS OF**  
**PURE SHETLAND LAMB LIMITED**

As described on the balance sheet you are responsible for the preparation of the financial statements for the year ended 31 March 2008 set out on pages three to seven and you consider that the company is exempt from an audit.

In accordance with your instructions, we have compiled these unaudited financial statements in order to assist you to fulfil your statutory responsibilities, from the accounting records and information and explanations supplied to us.

Garrick Accountancy Services  
7 North Ness Business Park  
Lerwick  
Shetland  
ZE1 OLZ

24 March 2009

This page does not form part of the statutory financial statements



**PURE SHETLAND LAMB LIMITED**  
**TRADING AND PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 MARCH 2008**

	31/3/08		31/3/07
	£	£	£
<b>Sales</b>		303,451	502,537
<b>Cost of sales</b>			
Purchases	245,956		377,488
MHS & MLC expenses	1,891		9,046
Contractors	5,354		30,276
	<u>253,201</u>		<u>416,810</u>
<b>GROSS PROFIT</b>		50,250	85,727
<b>Expenditure</b>			
Carriage	18,783		63,970
Rent	5,000		3,328
Rates and water	211		-
Light and heat	7,803		-
Refuse disposal	2,381		7,769
Administration expenses	2,446		3,118
Repairs and renewals	1,598		3,511
Sundry expenses	58		-
Accountancy	520		480
Professional fees	199		251
Advertising	125		904
	<u>39,124</u>		<u>83,331</u>
		11,126	2,396
<b>Finance costs</b>			
Bank charges	367		1,254
Factoring charges	416		-
Bank interest	210		-
Other interest	-		3,750
	<u>993</u>		<u>5,004</u>
		10,133	(2,608)
<b>Depreciation</b>			
Plant and machinery	2,588		1,450
Motor vehicles	2,109		2,813
	<u>4,697</u>		<u>4,263</u>
<b>NET PROFIT/(LOSS)</b>		<u><u>5,436</u></u>	<u><u>(6,871)</u></u>

This page does not form part of the statutory financial statements

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UNAUDITED MANAGEMENT ACCOUNTS FOR THE PERIOD 1 APRIL 2008 TO 31 DECEMBER 2008

FOR

PURE SHETLAND LAMB LIMITED

**PURE SHETLAND LAMB LIMITED**

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FOR THE PERIOD 1 APRIL 2008 TO 31 DECEMBER 2008**

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**PURE SHETLAND LAMB LIMITED**  
**COMPANY INFORMATION**  
**FOR THE PERIOD 1 APRIL 2008 TO 31 DECEMBER 2008**

**DIRECTOR:** M G Smith (Junior)

**SECRETARY:** Mrs A C A Smith

**REGISTERED OFFICE:** The Abbatoir  
Out Voe  
Dunrossness  
Shetland  
ZE2 9JQ

**REGISTERED NUMBER:** SC254717 (Scotland)

**ACCOUNTANTS:** Garrick Accountancy Services  
7 North Ness Business Park  
Lerwick  
Shetland  
ZE1 OLZ

PURE SHETLAND LAMB LIMITED

TRADING AND PROFIT AND LOSS ACCOUNT  
FOR THE PERIOD 1 APRIL 2008 TO 31 DECEMBER 2008

	Period 1/4/08 to 31/12/08		Year Ended 31/3/08	
	£	% of sales	£	% of sales
<b>Turnover</b>				
Sales	128,247	100.00	303,451	100.00
<b>Cost of sales</b>				
Purchases	108,148	84.33	245,956	81.05
MHS & MLC expenses	892	0.70	1,891	0.62
Contractors	3,446	2.69	5,354	1.76
	112,486	87.71	253,201	83.44
<b>GROSS PROFIT</b>	<u>15,761</u>	<u>12.29</u>	<u>50,250</u>	<u>16.56</u>
<b>Expenditure</b>				
Carriage	8,053	6.28	18,783	6.19
Rent	3,750	2.92	5,000	1.65
Rates and water	-	0.00	211	0.07
Light and heat	5,287	4.12	7,803	2.57
Refuse disposal	1,671	1.30	2,381	0.78
Administration expenses	1,233	0.96	2,446	0.81
Repairs and renewals	292	0.23	1,598	0.53
Sundry expenses	49	0.04	58	0.02
Accountancy	320	0.25	520	0.17
Professional fees	-	0.00	199	0.07
Advertising	-	0.00	125	0.04
	20,655	16.11	39,124	12.89
<b>Finance costs</b>				
Bank charges	125	0.10	367	0.12
Factoring charges	-	0.00	416	0.14
Bank interest	102	0.08	210	0.07
	227	0.18	993	0.33
<b>Depreciation</b>				
Plant and machinery	1,850	1.44	2,588	0.85
Motor vehicles	1,508	1.18	2,109	0.70
	3,358	2.62	4,697	1.55
<b>Total overheads</b>	<u>24,240</u>	<u>18.90</u>	<u>44,814</u>	<u>14.77</u>
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<u>(8,479)</u>	<u>-6.61</u>	<u>5,436</u>	<u>1.79</u>

PURE SHETLAND LAMB LIMITED

TRADING AND PROFIT AND LOSS ACCOUNT  
FOR THE PERIOD 1 APRIL 2008 TO 31 DECEMBER 2008

	Period 1/4/08 to 31/12/08		Year Ended 31/3/08	
	£	% of sales	£	% of sales
Tax	-	0.00	23	0.01
(LOSS)/PROFIT FOR THE PERIOD AFTER TAXATION	(8,479)	-6.61	5,413	1.78

PURE SHETLAND LAMB LIMITED

**BALANCE SHEET**  
**31 DECEMBER 2008**

	31/12/08		31/3/08	
	£	£	£	£
<b>FIXED ASSETS</b>				
Plant and machinery	5,912		7,762	
Motor vehicles	4,820		6,328	
	<u>          </u>	10,732	<u>          </u>	14,090
<b>CURRENT ASSETS</b>				
VAT	569		5,019	
Stocks	8,184		25,372	
Trade debtors	13,343		12,365	
Bank account	178		-	
Cash in hand	100		100	
	<u>          </u>		<u>          </u>	
	22,374		42,856	
<b>CURRENT LIABILITIES</b>				
Bank overdraft	-		2,898	
Trade creditors	23,383		35,686	
Tax	23		23	
Accrued expenses	840		1,000	
Director's current account	7,435		7,435	
	<u>          </u>		<u>          </u>	
	31,681		47,042	
		(9,307)		(4,186)
<b>NET ASSETS</b>		<u>          </u>		<u>          </u>
		1,425		9,904
<b>FINANCED BY</b>				
<b>CAPITAL AND RESERVES</b>				
Called up share capital		100		100
Profit and loss account		1,325		9,804
		<u>          </u>		<u>          </u>
		1,425		9,904
		<u>          </u>		<u>          </u>



**PURE SHETLAND LAMB LIMITED**  
**TANGIBLE FIXED ASSETS SCHEDULE**  
**31 DECEMBER 2008**

	Plant and machinery £	Motor vehicles £	Totals £
<b>COST</b>			
At 1 April 2008			
and 31 December 2008	14,322	15,000	29,322
<b>DEPRECIATION</b>			
At 1 April 2008	6,560	8,672	15,232
Charge for period	1,850	1,508	3,358
At 31 December 2008	8,410	10,180	18,590
<b>NET BOOK VALUE</b>			
At 31 December 2008	5,912	4,820	10,732
At 31 March 2008	7,762	6,328	14,090

)

)

Head of Service: Neil Grant  
**Chief Executive: David Clark**

M.G. Smith (Jnr)  
 Pure Shetland Lamb Ltd  
 Boddam  
 Dunrossness  
 Shetland

**Economic Development Unit**  
 Solarhus  
 3 North Ness Business Park  
 Lerwick  
 Shetland  
 ZE1 OLZ

Telephone: 01595 744940  
 Fax: 01595 744961  
 development@sic.shetland.gov.uk  
 www.shetland.gov.uk

If calling please ask for  
**Neil Grant**  
 Direct Dial: 01595744968

Your Ref:  
 Our Ref: DI/KLM/RF276

Date: DRAFT

Dear Sir

**Reserve Fund Grant**  
**Pure Shetland Lamb Ltd**

On behalf of Shetland Islands Council (hereinafter referred to as "the Council") I am pleased to offer Pure Shetland Lamb Ltd (hereinafter referred to as "the Company") a grant of 89.4% or £450,000 (Four Hundred and Fifty Thousand Pounds), whichever is the lesser, towards the cost of the purchase and upgrade of the Boddam Slaughterhouse subject to the following conditions: -

- 1 The grant has been approved on the basis of your expenditure and financing being as follows:-

<b>Project Costs</b>	<b>£</b>	<b>Project Funding</b>	<b>£</b>	<b>%</b>
Purchase of existing slaughterhouse from SDT	50,000	Personal Cash	53,300	10.6
Land purchase	5,000	SIC	450,000	89.4
Secondhand abattoir fittings & equipment	200,000			
New building, construction thereof, conversion of old building, & permits	220,300			
Transport of materials from south	8,000			
Contingency	10,000			
Extras	10,000			
<b>Total</b>	<b><u>£503,300</u></b>	<b>Total</b>	<b><u>503,300</u></b>	<b><u>100</u></b>

2. No payment will be made until the Company produces to the Council adequate evidence:-
  - a) That expenditure has been incurred. The Council requires valid original invoices that must either be receipted using the supplier's stamp or be attached to a letter from the supplier confirming payment. **(Hand written receipts that do not bear a supplier's stamp will not be accepted).**

Expenditure committed prior to the date of this letter will NOT be eligible for grant.
  - b) That the balance of the cost of the project has been raised in a manner satisfactory to the Council.
  - c) That all necessary consents including planning permission and a building warrant have been obtained.
  - d) That the purchase of the said slaughterhouse at Boddam by the company has been concluded.
  - e) The company demonstrate that all creditors currently listed in the 60 days or older section of the Company aged creditors ledger, totalling approximately £21,000 has been paid.
  - f) That all other requirements as detailed in this letter have been met.
3. The Council shall be entitled to appoint one person, as selected by the Council in its sole discretion to be a director of the Company.
4. Meetings of the board of the company shall be held at least once every quarter.
5. The Company shall give advance reasonable notice of all meetings of the board to the Council and shall timeously furnish the Council with all papers relevant to such meetings.
6. All substantial contracts and transactions entered into the Company shall be determined and approved by the board.
7. The Company will operate within Shetland for a period of at least 10 years from the date of receipt of grant and will not remove its business or the equipment or other assets, which form the subject of the grant, outside Shetland.
8. The Company will keep all buildings, equipment and other assets, which are the subject of or which relate to the grant offered, fully insured against loss and damage by fire, storm, theft, impact and such other risks as are appropriate, and vehicles shall be comprehensively insured; and you will exhibit the policies and receipts for the premiums to the Council on request.
9. The Company will not transfer, sell or discontinue its business, nor dispose of the assets which form the subject of this grant; nor use the buildings, equipment or other assets which are the subject of this grant for any purpose other than the approved project.

10. The Company will maintain the equipment or other assets which are the subject of or relate to the grant offered, and keep them in good condition; and will permit any person authorised by the Council to inspect them on request.
11. The Company will keep proper books of accounts and will provide annually to the Council the statement of accounts, reports or other explanations as may be required by the Council. As a minimum the Company will supply the Council with audited annual accounts within 6 months of the year end, and monthly management accounts within one month of each month end.
12. The Company will supply on request any additional information the Council may require to monitor the conditions under which grant is made.
13. In the event of any breach of the foregoing conditions the Council may, at its sole discretion, require repayment of all or part of the grant, by the Company and may also disqualify the Company from receiving any other assistance in terms of the Schemes operated by the Council. If the property/equipment for which grant assistance was received is sold, transferred or otherwise disposed of within the ten 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 the Company in full, at the date of sale or transfer.
- 14. Grant recipients must inform the Council of any changes in their circumstances affecting the grant conditions, in particular if the Company gives up the business for which grant assistance was given.**
15. Unless otherwise agreed in writing by the Council, these conditions shall endure under this offer for a period of 10 years from the date of the last payment of the grant.
16. The Council reserves the right to ascertain the amount of arrears of debt, if any, owed to the Council by applicants for assistance and to withhold payment of any assistance granted until such time as the arrears have been cleared or satisfactory arrangements have been made to clear such arrears.

If these conditions are acceptable please sign and date this letter and return it to me as soon as possible.

This offer is valid only until 30 June 2010. If, by that date, the grant has not been claimed and paid or if, by that date, an extension has not been requested and given this offer of grant lapses. If grant is still sought at that time, a fresh application would be required.

To claim your grant, please refer to the attached guidance notes on claiming financial assistance. Submissions with incomplete claim forms will not be processed.

A copy of this letter is enclosed for your retention.

**The Council reserves the right to publicise the assistance to the Applicant and to include it in a public record of cases, both to demonstrate how its resources are used and to give examples of the types of development it is able to assist. The Applicant shall ensure that any publicity given to the Project contains an acknowledgement of the Council's funding support and shall display in a prominent place, any plaque, sticker or logo as the Council may require.**

Yours faithfully

Head of Economic Development

Enc

I, M. J. Smith (Jnr), being an authorised signatory of Pure Shetland Lamb Ltd, accept the offer of grant on the conditions specified in this letter.

Signed: ..... Date: .....

## Key figures and summary analysis of Pure Shetland Lamb Ltd Business Plan c/o EDU May 2009

Lambs & Ewes European & UK Sales	2009-10		2010-11		2011-12		Three years	
Number	18504	20087	18504	57095	18504	57095	£	per kg %
Gross weight tonnes	273	328	328	929	328	929	£	per kg %
Sales income	1075191	1226900	1117421	3419512	1117421	3419512	£	per kg %
Cost of purchases	781605	867413	799496	2448514	799496	2448514	£	per kg %
Gross profit	293586	359487	317925	970998	317925	970998	£	per kg %
Expenses-variable	198302	175813	165701	539816	165701	539816	£	per kg %
Expenses-fixed	47514	64939	62788	175241	62788	175241	£	per kg %
Credit Insurance	32256	36807	33523	102585	33523	102585	£	per kg %
Depreciation	20000	20000	20000	60000	20000	60000	£	per kg %
Net profit ( loss) before financing costs	-4486	61928	35913	93355	35913	93355	£	per kg %
Financing costs	4571	5657	5155	15383	5155	15383	£	per kg %
Net profit (loss) after financing costs	-9057	56271	30757	77972	30757	77972	£	per kg %
Opening Bank balance	0	27812	103405	0	103405	0	£	per kg %
Closing bank balance	27812	103405	154163	154163	154163	154163	£	per kg %
Net profit adjusted for non-cash items: add back depreciation				137972		137972	£	
increase in bank balance over the period				154163		154163	£	
Difference-probably unpaid creditors of	5	days		-16191		-16191	£	





# **Pure Shetland Lamb**

## **Business Plan 2009-2012**

Prepared By:

Magnus Smith – Sales Manager  
Roy Longmuir – Consultant

April 2009

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# 1 Explanatory notes to the Business Plan

The business plan and corresponding forecasts have been prepared on the following basis:

- The plan and forecasts cover three years. In year one Boddam will operate from the existing facilities.
- The plan assumes that de-minimis funding of euro 500.000 will be available at the end of 2009.
- During 2009/10 a significant upgrade is proposed which will include additional lairage capacity, plus modern ,sheep, pig and cattle dressing lines complete with an electrical stunning system, elevator, automated skin, blood and gut removal systems and a special ewe splitting saw.
- Access to the plant will be improved, allowing articulated trailers to dock on to the despatch dock. Access will also be improved for vehicles delivering livestock.
- In order to proceed as outlined above it will be necessary for Pure Shetland Lamb to purchase the abattoir and the area of ground east the abattoir.
- The full benefits of developing the abattoir begin to become apparent in the 2009/2010 year of the business plan. Easier working and handling will allow increased throughput and a significant increase in the price paid to primary producers. The following examples demonstrate how this development will benefit local producers:

Small Hill Lamb	x 6kg	2008 value £ 4.00	2009 value £ 6.00 = 50%
Native Shetland Lamb	x 10kg	2008 value £17.50	2009 value £27.50 = 56%
Heavy crossbred lamb	x 18kg	2008 value £45.00	2009 value £63.00 = 40%
Average Ewe	x 19kg	2008 value £15.20	2009 value £28.50 = 87%

- By the end of the 2009 season the company will have generated sufficient funds to be in a position to purchase paunch washing equipment and gut cleaning equipment..which will be the final stage of the proposed upgrade and will bring the plant to a standard which will secure its future for at least 20 years.
- The ability to combine orders to London, Paris, Milan, Turin and other European destinations on the same trailer, ensures that transport costs are kept to a minimum. At times when it is not possible to fill a trailer from Shetland with Shetland lambs we are able to sell any space available to a mainland abattoir for which Magnus acts as export consultant.

The attached projected balance sheet and related information shows how the business will develop over the coming years to bring benefits to the company and local producers. Both the sales and purchase ledgers will be financed via Bibby Financial Services who provide an immediate 80% advance against invoices plus credit insurance cover. Bibby has offices in almost all European countries and can assist with currency transfers and pick a time when the rate is favourable providing circumstances allow.

- We note that ZET-TRANS has some concerns with regard to Northlink's ability to move all livestock, cargo and passenger cars during the peak livestock period. The movement of lamb carcasses in refrigerated trailers is much more efficient than the new Northlink container system. Supporting this project will make more efficient use of the ferry space available.
- It should be noted that the very high increase in feeding costs could have a negative effect on winter lamb sales. The impact of poor winter sales would have a negative effect on the bottom line, however as winter sales only provide a small percentage of the overall profit, their loss or reduction will not endanger the overall viability of the business plan. Recent very high market prices for lambs indicate that the increase in winter feeding is easily covered by the price available during the winter.
- Support of this project will retain slaughtering facilities at Boddam and provide an assortment of full and part-time jobs in a rural area.

## **2 Pure Shetland Lamb Limited – The Business**

### **2.1 Foreword:**

The company has revised its overall strategy over the last two years following the decision by Smyril Line not to call at Lerwick. We took the decision to concentrate totally on our slaughtering and wholesale activities in the UK, France, Italy, Germany, Spain, Portugal, Faroe and Greece.

The 2007 foot and mouth crisis in England had a serious knock on effect on our overseas sales and we are currently working towards re-establishing volume sales in Italy and opening up new markets in Europe and the UK which we were unable to service during the 2007 season due to FMD and the global economic crisis late in 2008.

We have established a new market area in selling sheepskins to the Czech republic, which although small is significant in helping to reduce costs as we no longer have to pay to have small skins dumped. . We have explored new markets for the so-called 'fifth' quarter (i.e. products such as heads, gut and paunches which have traditionally been dumped) and when added together it makes a significant contribution to revenues and a significant reduction in waste disposal costs.

### **2.2 Personnel Profile**

**Magnus George Smith** junior, as general manager of the business, has thirteen years experience in slaughtering, storing, cutting, processing, marketing, packing and delivering a range of locally produced meat products to most segments of the local market. His responsibility for day-to-day operational management of all aspects of the business during the last two years has demanded considerable skills in personnel recruitment and management.

During previous employment with Hay & Co, he gained valuable experience as a duty officer in staff management, customer care and computer skills. Further skills development was gained in customer relations, marketing and stock control while employed by The George Craig Group as a ship chandler.

In 2002 George gained an Intermediate Certificate in Food Hygiene.

During 2006 he successfully introduced the HACCP (Hazard Analysis Critical Points) system to ensure compliance with meat hygiene regulations. He designed and constructed a basic inverted lamb slaughter line, which has significantly reduced slaughtering labour costs and has been implemented with a minimum of capital outlay.

A key marketing success was his initiative in opening up a new market for Shetland sheepskins in Poland.

**Alison Smith** has thirteen years experience in the butchery trade, during which she has become fully conversant with all aspects of the business. Her current role is general administration and invoicing.

**Magnus Smith** – Sales Manager – has over forty years experience in the meat trade and has direct hands-on practical experience of every aspect of the business. During the last two years he has been instrumental in developing the company's successful marketing push into Italy and has identified a definite market for Shetland lamb in France which has been unable to be serviced yet due to the foot & mouth restrictions in the 2007 season and more recently because of the global economic crisis.

He gained valuable marketing and exporting knowledge while employed by the George Craig Group as general manager of their Lerwick depot and during this period was responsible for 5000+ stock items and over thirty staff. Aided by a competent local team, he sold and delivered goods to local shops and catering establishments on shore. Export sales were made to Faroe and Iceland. Offshore sales were made to seismic survey ships, offshore diving vessels, oil-rigs, offshore platforms and supply boats.

In 2002, Magnus gained an Intermediate Hygiene Certificate

#### **Contact Details:**

All enquiries on this plan should be directed to Magnus Smith

Tel: 01950 460669

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email: [boddamabattoir@btinternet.com](mailto:boddamabattoir@btinternet.com)

### ***2.3 Introduction to Pure Shetland Lamb***

The company procures lambs at source, slaughters and prepares them for marketing to wholesalers and butchers both at home and abroad.

We operate one of Shetland's two slaughterhouses – ours being the only multi-species slaughterhouse. During 2006, we designed, constructed and installed purpose-built sheep hanging frames to allow an increase in hanging capacity from 80 to 400, which has enabled us to handle the quantities required for export orders.

Another innovation in 2006 was to design, manufacture and install a basic inverted lamb slaughter line and pelt-puller. This was successfully installed

with low capital outlay and has allowed us to significantly reduce slaughtering costs and increase throughput. A further benefit has been a considerable improvement in the appearance of the carcasses.

We have expanded the 3<sup>rd</sup> party slaughtering service that we offer to local farmers and crofters and this proved particularly popular with pig farmers.

Following on from the negligible 2007 overseas sales due to the foot & mouth outbreak in England we are now working hard to drive up our sales in Italy and France and other European countries early indications are very positive. however, the difficulty in obtaining credit insurance on a number of customers has severely restricted our ability to export - as shown in the accompanying financial analysis. Increasing the number of customers will produce a much better balanced ledger and make credit insurance much easier to obtain.

Our intention through this business plan is to demonstrate our success in our chosen markets, our clear strategy for increasing our overseas sales and to provide a sound basis to attract EU 'de minimis' funding to enable us to further upgrade our slaughterhouse facilities and increase overall capacity.

The benefits to the business of an upgrade would include:

- Reduced operating costs
- Ability to pay more to primary producers
- Reduction in seasonal temporary labour requirements
- Greater throughput capacity
- Potential to market Shetland lamb via Scottish Co-op and Tesco

## *2.4 Company History & Background*

The business was set up in 2004 to procure, slaughter, cut, process and market Shetland lamb. The business operates from the Boddam abattoir in the Shetland south mainland.

Pure Shetland Lamb is a private limited company with one director, George Smith

## *2.5 Nature of the Business*

The company sells the following products:

- Lamb carcasses fresh
- Lamb primals (cuts that carcasses are broken down into for wholesale)
- Frozen lamb primals
- Halal carcasses
- Ewe carcasses
- Hog (mature castrated sheep) carcasses
- Sheepskins
- Offal

- Slaughtering service for cattle, sheep and pigs
- Cattle up to 48 months can now be slaughtered

Permanent staffing level is currently two part-timers, with a mix of seasonal full and part time staff being employed as required.

All staff are trained to company standard operating procedures (SOP) to comply with all regulations, including HACCP and Halal.

SOP is documented and available to staff as required.

Because of the requirement to employ temporary staff, our training strategy is to carry out supervised 'on the job' training with maximum emphasis on practical skills and procedures.

The responsibility for ensuring that all new regulations are identified, examined and implemented as required, rests with George and Magnus.



### 3 Marketing Strategy

#### 3.1 Market Research

##### 3.1.1 Target Market Segments

➤ **International consumers:**

- Faroe
  - Existing market for lamb, currently being satisfied by frozen lamb from Iceland and chilled fresh lamb from New Zealand
  - Home drying market.
  - Lamb and sheep for drying
- Italy
  - Supermarkets and wholesalers supplied via an agent. This market accepts lambs over a wide weight range (6-16 kilos)
- France
  - An agreement has been reached with one of the major lamb processors to market heavy Shetland lambs and ewe carcasses.
- Spain
  - An agreement in principle has been reached with an agent who procures orders on behalf of supermarkets and wholesalers for lambs in a weight range of 8-16 kilos
- Cameroon
  - We have investigated a potential market for lamb and by-products but at this stage we are uncertain about the viability of this market due to higher than normal financial risks
- Germany
  - Currently negotiating with a number of wholesalers who market lamb carcasses in significant quantities.
- Portugal
  - We have opened negotiations with a French company which markets all kinds of meat and by-products to a variety of customers in Portugal
- Czechoslovakia
  - Market identified for sheepskins with two tanneries prepared to take skins direct from the abattoir. Both offering pre-payment ex-abattoir. This will effectively take our total production of sheepskins.

➤ **UK market:**

- Supply of carcasses to UK wholesalers who supply "up-market" hotels & restaurants catering to a clientèle which demands premium quality source ingredients

- Supply of halal lamb and ewe carcasses to a wholesaler in East Anglia
- Shetland:
  - Supply of carcasses to local wholesalers and butchers
  - Slaughtering service for crofters, farmers, butchers and the general public
  - Currently exploring a new potential market with the local Tesco and Co-op supermarkets for pre-packed gas-flushed lamb, prepared and presented for immediate retail sale

### 3.1.2 Target Market Segment Trends

#### Faroe:

Static market; consumption per head is approx 3 times UK average. Demand for pre-packaged Shetland-branded frozen premium product cuts. Total market value – import 40,000 lamb carcasses £2m – targeting £65k (2.5% by revenue).

Seasonality coincides with Shetland production, in terms of the home drying market, which in Faroe starts in October as the process involves no salting but wind drying.

Competing with Iceland and New Zealand, local lamb sells for £6 per kilo at this time and we will offer mutton cuts for drying at significantly lower prices to capture market share.

Our Faroese wholesaler is P/F Poul Hansen - Faroe's leading wholesaler, representing approx. 40% of the local food market, with a specialist meat processing and packing section. Our market intelligence is derived from detailed discussions between November 2004 and December 2008 with Poul Hansen, although our relationship with them goes back to 1993. We also have first-hand recent direct experience having attended the North Atlantic Fish Fair in Torshavn in early May 2005, where we found great interest in all our products. We intend to concentrate our efforts on fresh mutton for local drying. We believe that the relative strength of the kroner against sterling will allow increased sales of these products. More recently we have had talks with Faroe Food who market speciality foods such as dried mutton in Faroe, Denmark and Norway

#### Italy

Static market but one where the demand for light and super-light lambs (ie between 8-11 and 6-8 kilos) cannot currently be fulfilled.

Current supply is from Wales, England and the south of Scotland. Shetland light lambs are considered by our agent to be of higher quality than his current

suppliers are providing and we believe that he will take whatever quantity we can offer him – our target is circa 10,000 carcasses.

#### **France**

Static market in the area that interests us i.e. heavier lambs in the 15-20 kilo range. Price is traditionally stronger than UK pricing. We are aiming to ship circa 3,000 carcasses to this supplier and we are currently negotiating to firm up an order.

#### **Spain**

This is similar to the Italian market and we will use this to take advantage of advantageous price differentials between this and the Italian market. As Spain has a good local lamb supply we will only be selling into this market at times of shortage and high prices which will make it more profitable than the Italian market.

#### **Cameroon**

There is a very high demand for lamb by-products and we are negotiating with a local wholesaler. Due to our unease about financial stability we will only supply on a pre-paid basis. This market would only be addressed by ourselves following our proposed facilities upgrade.

#### **Germany**

Currently in negotiation with a number of firms in Germany who are interested in importing lambs in a weight range of 12-18 kilos. This market traditionally looks for a leaner lamb which in the UK would generally be classed as a store lamb requiring further feeding. Our target is to ship 5,000 carcasses in this first year and build the market by 50% per annum over the following two years.

#### **Portugal**

A similar market to the German, but requiring fatter carcasses. In negotiation with an agent and targeting for 3,000 carcasses as an initial sale in year 1 to establish our presence.

#### **Czechoslovakia**

This market is only for sheepskins but currently will absorb our total production. We have also identified potential markets for our skins in Holland and Poland should the Czech market decline.

#### **UK and local Shetland market**

This market is characterised as generally static overall, with a shift in percentage from the premium quality product to the mid-range for the UK with the exception of the local Shetland market where premium quality is still in high demand.

Competition is wide and varied. Our strength against our competition lies in the unique qualities of our product range – low pollution, old established native breeds & cross-breeds giving fuller flavour and texture enhanced by the

salt-laden pastures due to our oceanic location. Most of our product is effectively of near organic quality and the Shetland flock as a whole has a very high health status.

**Market segment for young lamb:**

The UK expects spring lamb to be available from May to end June. Traditionally, Shetland lambs are not available until mid August, but we have successfully encouraged our producers to provide us with early lambs from June onwards. Although rearing costs are higher, we are still able to give our producers a much better price at this time.

During 2005, we opened up a new market segment in which we offered very young (effectively "spring") lamb directly to butchers, when the main Shetland young lambs are ready for sale in August / September. We saw this as an opportunity to sell a unique product as no other UK region is producing lambs of this age at this time. Although our initial sales were encouraging, expanding this market has proved difficult due to the distance from the individual customers and sales have remained static. From July 2009 we will supply UK mainland wholesalers and butchers via either our English or Scottish agent, which gives us the ability to deliver volumes to a single delivery point.

**Market segment for older lamb:**

While the UK market expects a supply of mature lambs from July through April, there tends to be a drop in the numbers available during April. Shetland's previously available natural supply of mature lambs has been reduced due to the very high price paid for store lambs during 2008 and we therefore are predicting a reduction in our ability to meet this gap in supply to our UK wholesalers.

In 2008 we negotiated with a delivery company in North-East Scotland which took orders on our behalf from its extensive client base of butchers and caterers. This was intended to reduce the logistical issues which were hindering our expansion of the young and old lamb market segments as we would only have to deliver to one central point with a reduction in costs by shipping pallet loads. In practise, we have discovered that logistical difficulties at the mainland increased costs to an uneconomic level. We have therefore discontinued this market area.

### 3.2 Customer Benefits

Market Segment	Benefits Sought
Faroe - lamb	Fresh & healthy
	Purity of origin
	Innovative new products
	More availability of fresh lamb
	Reduction in supply chain steps
	Suitability for home drying
UK - young lamb segment	Out of season young lamb
UK - older lamb segment	Filling between season gap
Shetland Local - lamb	Identifiable local produce
France - lamb	Seasonal high quality heavy lambs and ewes
Italy - lamb	Seasonal light and super-light lambs
Spain - lamb	Seasonal light and super-light lambs
Cameroon – by-products	Alternative quality source
Germany - lamb	Seasonal lean lambs
Portugal - lamb	Seasonal mid range fatter lambs
Czechoslovakia - skins	Fine wool quality & double-faced

### 3.3 Competition

Market Segment	Competitive products
Faroe - lamb	Icelandic lamb
	New Zealand lamb
	Local lamb
	East European lamb
UK - young lamb segment	Mature lamb
	New Zealand lamb
UK - older lamb segment	New Zealand lamb
Shetland Local - lamb	Scottish, New Zealand
France - lamb	UK, New Zealand, Ireland, East Europe
Italy - lamb	West of Scotland, Wales
Sheepskins - Poland	UK, New Zealand

## 3.4 Competitor Analysis – Market Segment – Faroese Lamb

	Pure Shetland Lamb	Icelandic Lamb	New Zealand Lamb	Local Faroese Lamb	East European Lamb
Market Share	0%	5%	65%	20%	10%
Product Range	Frozen Bone-in Primals Frozen Boneless Primals Primals Frozen Mutton Carcasses Lamb and mutton for drying	Frozen Bone-in Primals	Fresh Bone-in Primals Frozen Bone-in Primals	Fresh Bone-in Primals	Frozen Boneless Primals
Price	Higher	Higher	Benchmark Price	Very much Higher	Lower
Profitability (UK average as benchmark)	Medium	Unknown	Unknown	Very High	Unknown
Customer Service	Personal contact with clients over ten year period, so very high level	Good	Good	Not applicable as all home kill	Unknown
Location	Very near	Near	Very distant	Local, but limited	Distant
Image	Past proven reliability of supply has been maintained, even with the issues regarding MV Norrona, by sourcing alternative delivery channels	Now seen as a very high cost product	Low cost – low value	Very expensive	Seen as a non-prime product for commercial processing
Delivery	Short delivery time, fluctuating in volume by season, but always available	Always available	Lengthy timescale between despatch and arrival; always available	Seasonal	Always available
Quality	Although now frozen it is still regarded generally as good as local Faroese	Although now frozen it is still regarded generally as good as local Faroese	Regarded by Faroese as low quality	High quality – the standard	Regarded by Faroese as low quality
Presentation & Packaging	Primals displayed with Pure Shetland Lamb logo	Primals only	Primals only	Carcasses	Forequarter Primals

## 3.5 Competitor Analysis – Market Segment – UK Young Lamb

	Pure Shetland Lamb	UK Lamb	New Zealand Lamb	Local Faroese Lamb	East European Lamb
Market Share	2%	90%	8%	Nil	Nil
Product Range	Fresh carcasses & primals	Fresh carcasses & primals	Fresh & frozen primals	N/A	N/A
Price	Competitive	Benchmark	Low	N/A	N/A
Profitability	Higher	Benchmark	Unknown	N/A	N/A
Customer Service	Fast & reliable with a high degree of personal service	Good	Long supply chain being mitigated by good personal service	N/A	N/A
Location	Remote, but with a reliable delivery network	Mainly central, with an excellent delivery service	Very remote, but with an excellent, reliable delivery network	N/A	N/A
Image	Top quality; Healthy; Pure & Clean; Desirable; Affordable	Good quality	Low quality, low price	N/A	N/A
Delivery	Daily	Daily	Regular, via agents	N/A	N/A
Quality	Excellent	Good	Reasonable	N/A	N/A
Presentation & Packaging	Good, with identifiable branding and logo	Good	Good	N/A	N/A

NB – Percentage figures apply to that geographical segment of the UK market in which we operate

### 3.6 Competitor Analysis – Market Segment – UK Older Lamb

	<b>Pure Shetland Lamb</b>	<b>UK Lamb</b>	<b>New Zealand Lamb</b>	<b>Local Faroese Lamb</b>	<b>East European Lamb</b>
Market Share	0%	92%	8%	Nil	Nil
Product Range	Fresh carcasses & primals	Fresh carcasses & primals	Fresh & frozen primals	N/A	N/A
Price	Competitive	Benchmark	Low	N/A	N/A
Profitability	High when compared to benchmark	Benchmark	Unknown	N/A	N/A
Customer Service	Fast & reliable with a high degree of personal service	Good	Long supply chain being mitigated by good personal service	N/A	N/A
Location	Remote, but with reliable delivery network	Mainly central, with an excellent delivery service	Very remote, but with an excellent, reliable delivery network	N/A	N/A
Image	Top quality; Healthy; Pure & Clean; Desirable; Affordable	Top quality, some premium	Low quality, low price	N/A	N/A
Delivery	Daily	Daily	Regular, via agents	N/A	N/A
Quality	Excellent	Good	Reasonable	N/A	N/A
Presentation & Packaging	Good, with identifiable branding and logo	Good	Good	N/A	N/A

NB – Percentage figures apply to that geographical segment of the UK market in which we operate



### 3.7 Competitor Analysis – Market Segment – Shetland Local

	<b>Pure Shetland Lamb</b>	<b>Scottish Lamb</b>	<b>New Zealand Lamb</b>	<b>Local Shetland Lamb</b>
Market Share	30%	25%	15%	30%
Product Range	Carcasses & primals	Carcasses	Primals	Carcasses & primals
Price	Marginally higher	Benchmark	Lower	Higher
Profitability	Just above benchmark	Benchmark	Unknown	Just above benchmark
Customer Service	Very high; deliveries throughout the islands	Good, but limited to supermarkets & butchers	Good, but limited to supermarkets	Very high; deliveries throughout the islands
Location	Local	Scottish mainland	Remote	Local
Image	Reliable; high quality; value for money; high service level; local produce; desirable; affordable; always available	Medium quality	Low quality	Reliable; high quality; value for money; high service level; local produce; desirable; affordable; always available
Delivery	Daily	Dependent on shipping	Dependent on shipping	Daily
Quality	Excellent	Good	Fair	Excellent
Presentation & Packaging	Good, with identifiable branding and logo	Good	Good	Good

## 3.8 Competitor Analysis – Market Segment – France

	Pure Shetland Lamb	UK Lamb	New Zealand Lamb	East Europe	France
Market Share	Nil	Substantial (% unknown)	Very substantial (% unknown)	Small (% unknown)	Very substantial (% unknown)
Product Range	Carcasses	Carcasses	Carcasses	Carcasses	Carcasses
Price	Significantly lower (-15%)	Significantly lower (-15%)	Significantly lower (-30%)	Significantly lower (-15%)	Benchmark
Profitability	Although below benchmark still high	Although below benchmark still high	Unknown	Unknown	Benchmark
Customer Service	Have established an excellent personal relationship with a leading wholesaler	Good	Good	Unknown	Excellent
Location	Remote	Distant	Very remote	Close	Local
Image	Reliable; high quality; value for money; high service level; desirable; affordable	Medium quality; reliable; always available	Low quality; always available	Unknown	Very highly desirable
Delivery	Excellent fast and efficient delivery service	Excellent fast and efficient delivery service	Excellent fast and efficient delivery service	Regular	Daily
Quality	Excellent	Good	Fair	Unknown	The best
Presentation & Packaging	None, but negotiating with supplier to have it Shetland branded	None	None	Unknown	Locally branded

**3.9 Competitor Analysis – Market Segment – Italy**

	<b>Pure Shetland Lamb</b>	<b>West of Scotland</b>	<b>Wales</b>
Market Share	Small	Significant	Very significant
Product Range	Carcasses	Carcasses	Carcasses
Price	Marginally higher	Par with benchmark	Benchmark
Profitability	Higher	Par with benchmark	Benchmark
Customer Service	Excellent personal relationship with Italian wholesale agent established over 6 years	Good	Good
Location	Very Remote	Remote	Remote
Image	Reliable; high quality; value for money; high service level; desirable; affordable; always available	Medium quality	Low quality
Delivery	Excellent fast and efficient delivery service	Excellent fast and efficient delivery service	Excellent fast and efficient delivery service
Quality	Generally equal but higher in some classes	Marginally above	Benchmark
Presentation & Packaging	Good, with identifiable branding and negotiating to have PSL logo added	Branded as Scottish	Branded as Welsh

**3.10 Competitor Analysis – Market Segment – Spain**

	<b>Pure Shetland Lamb</b>	<b>UK</b>	<b>Wales</b>
Market Share	Nil	40%	60%
Product Range	Carcasses	Carcasses	Carcasses
Price	Benchmark	Par with benchmark	Benchmark
Profitability	Par with benchmark	Par with benchmark	Benchmark
Customer Service	Relationship currently being established	Good	Good
Location	Very Remote	Remote	Remote
Image	Reliable; high quality; value for money; high service level; desirable; affordable; always available	Medium quality	Low quality
Delivery	Excellent fast and efficient delivery service	Excellent fast and efficient delivery service	Excellent fast and efficient delivery service
Quality	Generally equal but higher in some classes	Marginally above	Benchmark
Presentation & Packaging	Good, with identifiable branding	Branded as Scottish	Branded as Welsh

**3.11 Competitor Analysis – Market Segment – Cameroon**

	<b>Pure Shetland Lamb</b>	<b>Unknown</b>	
Market Share	Nil	100%	
Product Range	Offal	Offal	
Price	Equal to benchmark	Benchmark	
Profitability	Equal to benchmark	Benchmark	
Customer Service	Relationship currently being established	Good	
Location	Very Remote	Unknown	
Image	New supplier	Unknown	
Delivery	Slower than normal	Unknown	
Quality	Equal to benchmark	Benchmark	
Presentation & Packaging	Identifiable branding	Unknown	

**3.12 Competitor Analysis – Market Segment – Germany**

	<b>Pure Shetland Lamb</b>	<b>UK Lamb</b>	<b>New Zealand Lamb</b>	<b>East Europe</b>	<b>Ireland</b>	<b>Wales</b>
Market Share	Nil	Unknown	Unknown	Unknown	Unknown	Unknown
Product Range	Carcasses	Carcasses	Carcasses	Carcasses	Carcasses	Carcasses
Price	Equal to Benchmark	Benchmark	Below Benchmark	Significantly below Benchmark	Below Benchmark	Equal to Benchmark
Profitability	Equal to Benchmark	Benchmark	Unknown	Unknown	Equal to Benchmark	Equal to Benchmark
Customer Service	Developing relationship with a leading wholesaler	Good	Good	Good	Good	Good
Location	Remote	Distant	Very remote	Close	Remote	Distant
Image	Reliable; high quality; value for money; high service level; desirable; affordable	Medium quality; reliable; always available	Low quality; always available	Low quality; always available	Medium quality; reliable; always available	Medium quality; reliable; always available
Delivery	Excellent fast and efficient delivery service	Excellent fast and efficient delivery service	Excellent and efficient delivery service	Excellent fast and efficient delivery service	Excellent fast and efficient delivery service	Excellent fast and efficient delivery service
Quality	Above benchmark	Benchmark	Below benchmark	Below benchmark	Equal to benchmark	Equal to benchmark
Presentation & Packaging	None, but negotiating with supplier to have it Shetland branded	Branded as UK	Branded as NZ	Unknown	Branded as Irish	Branded as Welsh

**3.13 Competitor Analysis – Market Segment – Portugal**

	<b>Pure Shetland Lamb</b>	<b>UK Lamb</b>	<b>New Zealand Lamb</b>	<b>East Europe</b>	<b>Ireland</b>	<b>Wales</b>
Market Share	Nil	Unknown	Unknown	Unknown	Unknown	Unknown
Product Range	Carcasses	Carcasses	Carcasses	Carcasses	Carcasses	Carcasses
Price	Equal to Benchmark	Benchmark	Below Benchmark	Significantly below Benchmark	Below Benchmark	Equal to Benchmark
Profitability	Equal to Benchmark	Benchmark	Unknown	Unknown	Equal to Benchmark	Equal to Benchmark
Customer Service	Developing relationship with a leading wholesaler	Good	Good	Good	Good	Good
Location	Remote	Distant	Very remote	Near	Remote	Distant
Image	Reliable; high quality; value for money; high service level; desirable; affordable	Medium quality; reliable; always available	Low quality; always available	Low quality; always available	Medium quality; reliable; always available	Medium quality; reliable; always available
Delivery	Excellent fast and efficient delivery service	Excellent fast and efficient delivery service	Excellent and efficient delivery service	Excellent fast and efficient delivery service	Excellent fast and efficient delivery service	Excellent fast and efficient delivery service
Quality	Above benchmark	Benchmark	Below benchmark	Below benchmark	Equal to benchmark	Equal to benchmark
Presentation & Packaging	None, but negotiating with supplier to have it Shetland branded	Branded as UK	Branded as NZ	Unknown	Branded as Irish	Branded as Welsh

**3.14 Competitor Analysis – Market Segment – Sheepskins Czechoslovakia**

	<b>Pure Shetland Lamb</b>	<b>Worldwide</b>
Market Share	Nil	100%
Product Range	Wet salted skins	Wet salted skins
Price	Above benchmark	Benchmark
Profitability	Higher	Benchmark
Customer Service	Still establishing a relationship	Good
Location	Remote	Variable
Image	Perceived as a high quality product with fine wool mainly for use in medical and footwear products	Mixed
Delivery	Excellent fast and efficient delivery service	Excellent fast and efficient delivery service
Quality	Very high	Varied
Presentation & Packaging	Palletised	Palletised



### 3.15 Objectives

- **General:**
  - To achieve accredited status as a halal supplier by the end of 2009
  - To achieve licensed approval as an over 30-month slaughterer, by the end of 2008 – this target was achieved in March 2009
- **Faroe:**
  - To re-establish Pure Shetland Lamb as a supplier of lamb and ewes for local drying and fresh consumption by the end of 2009
- **UK Young Lamb Segment:**
  - By the end of financial year 2009/10 to have doubled our market share to 4%
- **UK Older Lamb Segment:**
  - By the end of financial year 2009/10 to have doubled our market share to 4%
- **Shetland Local Market & UK Market**
  - By the end of financial year 2009/10, to increase sales revenues to butchers from £10K to £20K
  - By the end of financial year 2009/10, to increase sales revenues to wholesalers from £233K to £400K
  - By the end of financial year 2009/10, to increase sales revenues from local 3rd party slaughtering from £7.5K to £12.5K
  - Increase all local revenue objectives by 5% per annum over the next five financial years
- **France**
  - By the end of financial year 2009/10, to increase sales revenues to £100K
  - By the end of 2009 to have the local agent brand the product with PSL logo
- **Italy**
  - By the end of financial year 2009/10, to increase sales revenues to £220K
- **Spain**
  - By the end of financial year 2009/10, to establish revenues of £100K
- **Cameroon**
  - By the end of financial year 2009/10, to generate sales revenues of £20K
- **Germany**
  - By the end of financial year 2009/10, to achieve sales revenues of £50K

➤ **Portugal**

- By the end of financial year 2009/10, to achieve sales revenues of £50K

➤ **Czechoslovakia**

- By the end of financial year 2008/9, to achieve sales revenues of £10K

### 3.16 Marketing Mix

➤ **UK Young Lamb:**

- Product: Young cross-bred lambs
- Place: High quality establishments via a UK mainland distribution outlet
- Price: Top end of catering scale
- Promotion: We will work in conjunction with our distribution company for promotions

➤ **UK Older Lamb:**

- Product: Lamb which is near or over 1 year old
- Place: Selected outlets who are looking for a product which has increased flavour and better texture in line with the idea to be promoted by HRH Prince of Wales
- Price: Top end of what can be reasonably expected
- Promotion: Leaflets to target establishments known to be looking for that 'little bit extra'

➤ **Shetland Local:**

- Product: Mature year old hogs
- Place: Local wholesalers and butchers
- Price: High end of this market
- Promotion: Regular personal contact

➤ **France:**

- Product: Cross & pure bred Shetland lamb
- Place: Major wholesaler
- Price: High end of market
- Promotion: Wholesaler led

➤ **Italy:**

- Product: Native Shetland lamb
- Place: Major supermarket chain & wholesalers
- Price: High end market
- Promotion: Individual by outlets

➤ **Spain**

- Product: Native Shetland lamb
- Place: Major supermarket chain & wholesalers
- Price: High end market
- Promotion: Individual by outlets

➤ **Cameroon**

- Product: Offal
- Place: Wholesaler
- Price: Market
- Promotion: Not applicable

➤ **Germany**

- Product: Cross-bred lambs
- Place: Wholesalers
- Price: High end market
- Promotion: None

➤ **Portugal**

- Product: Native Shetland lamb
- Place: Wholesalers
- Price: High end market
- Promotion: None

➤ **Czechoslovakia:**

- Product: Wet salted sheepskins
- Place: Tannery
- Price: High end market
- Promotion: None

## **4 Health & Safety**

### ***4.1 Product Health & Safety:***

Health and safety of our products is ensured through compliance with the HACCP regulatory framework. All activity within the abattoir is 100% supervised by an OVS who is a qualified veterinary practitioner to ensure compliance.

### ***4.2 Staff Health & Safety:***

Company health and safety procedures are documented and displayed in the employee rest room. All new employees have these procedures explained to them as part of the induction process and are required to sign a register to indicate their understanding and acceptance of the need to strictly adhere to them.

### ***4.3 Quality Programme***

The company's products have to meet the stringent standards set by the HACCP regulations and all our processes and procedures are carried out to ensure HACCP compliance.

It is our intention during 2009 to investigate other quality programmes with the intention of developing a programme to implement any which we feel would give us competitive advantage.

**Appendix: Pure Shetland Lamb Limited - Financial Projections**

See EDU summary analysis.

We write to support the proposal to invest public funds into upgrading and modernising Boddam abattoir. In addition to its own trading activities (supplying local lamb for the schools contract etc), we understand it is at the moment processing stock for more than 20 farmers and crofters who supply beef for their own markets. A similar number are supplying lamb and approximately 15 are doing pork. We feel this is the direction the industry must be encouraged to take in the future, and this investment is the best means of achieving that aim.

We appreciate there is a section of the industry who are not content to use Boddam for slaughtering, and we feel their needs can be met with an investment into SLMG'S facility. They have 15 commercial customers and this needs to be encouraged and expanded further. We believe this joint funding is the only way in which all members of the industry can feel confident about accessing the facilities they require. We feel this is both cost effective for the public purse, and affordable for the industry, while also introducing an element of healthy competition into the market place.

These investments will undoubtedly open up new opportunities and additional streams of revenue. However we do have concerns over the profitability of these facilities.

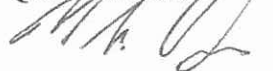
With abattoirs nationally showing profits in the region of 1%, it may be necessary in the future to provide some additional on-going support. We suggest this could be done fairly by underwriting their running costs, such as ( electricity and insurance ) but not their trading losses. We feel this wouldn't be a particularly large sum and could be funded from the existing agricultural budget. It would also afford the agricultural industry and the individual businesses some assurance of their on-going viability in a very competitive market.

We have confidence in the future of Shetland agriculture. Some of the basic infrastructure such as the health schemes, and pier and freight services, are running well. The next crucial step in expanding the role agriculture plays in the local economy is the investment in our abattoirs, and we would encourage you to do that now.

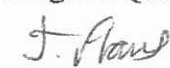
George Black  
Skelberry Dunrossness



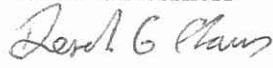
Martin Burgess  
Quendale Farm



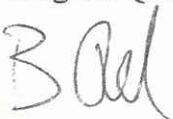
Jim Flaws  
Ringesta Quendale




Derek Flaws  
Fleck Dunrossness



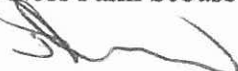
Brian Leslie  
Ringesta Quendale



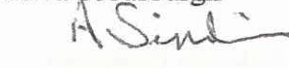
J&R Leslie  
Scholland Virkie



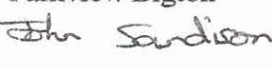
John Mainland  
Noss Farm Scousburgh



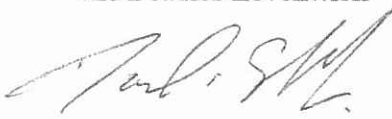
Alan & Laura Sinclair  
Firva Scousburgh



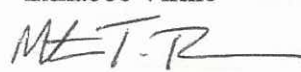
John Sandison  
Parkview Bigton



David Smith  
The Beadies Levenwick



Martin Thomson  
Exnaboe Virkie



# J. W. GRAY & Co.

INCORPORATING TODS OF LERWICK

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E-mail: jwgray@jwgplc.co.uk

To Whom It May Concern

10/04/09

## Pure Shetland Lamb

I would like to take this opportunity to mention that J.W. Gray & Co has purchased product from Pure Shetland Lamb for 3 ½ years. During this period our butchery staff have found both the product and the price to be *"the best we have purchased for many years"*. Our staff are well known throughout Shetland for their professionalism and integrity, therefore their comments should be taken as read.

I would also like to mention that our company operates a stringent Quality Assurance Management programme and as such we have had no non-conformities whatsoever with any issue which relates to this process in terms of tractability, quality or availability.

To summarise Pure Shetland Lamb is in my view an excellent company to deal with and I have every confidence in recommending them to any distributor, vendor or consumer either locally or out-with Shetland.

Yours,



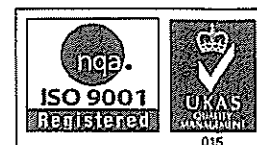
Iain Johnston  
Director  
J.W. Gray & Co

*Orkney & Shetland's Premier Wholesale Company*

A member of  
**LANDMARK**  
PROFESSIONALISM INTEGRITY TECHNICALITY

Registered in Scotland No.: 88858

*localsbest* 



Certificate No. 2396





## **REPORT**

**To: Special Development Committee**

**22 June 2009**

**From: Development Officer**

**DV059-F**

**Pure Shetland Lamb Ltd**

**Application for Grant Assistance to Upgrade Boddam Slaughterhouse**

### **1.0 Introduction**

- 1.1 This report concerns an application for grant assistance to substantially upgrade the existing slaughterhouse at Boddam. A *de minimis* grant of up to £450,000 has been requested and is recommended for approval.
- 1.2 This report has been marked as public with the written permission of the applicant, Pure Shetland Lamb Ltd.

### **2.0 Links to Corporate Priorities**

- 2.1 The report helps to achieve the Sustainable Economy Action Area of the Corporate Plan by linking economic activity to market needs and by encouraging enterprise and sustainable economic growth. The project aims to fulfill the pledge to foster growth in direct income in the agriculture industry contained in the Economic Development Policy Statement (2007-2011).

### **3.0 Background**

- 3.1 Pure Shetland Lamb Ltd is a family run business operating out of the Shetland Development Trust owned slaughterhouse premises at Boddam. The business was set up in 2004, and is a private limited company with one director, Magnus George Smith Jnr. The company sells a variety of fresh and frozen ewe, hog and lamb carcasses, primals and offal, and has recently expanded the business to include halal carcasses, and new markets for sheepskins. Pure Shetland Lamb provides slaughtering services for cattle, pigs, and sheep, and as such is the only multi-species slaughterhouse in Shetland.

- 3.2 Constructed in the 1960's, the facility remains almost unchanged in the intervening years. The slaughterhouse has been issued with a full approval by the Food Standards Agency (FSA) to slaughter cattle, sheep, goats and pigs (ref. AFC1158), and is operated under full Veterinary and Meat Hygiene service supervision. However, it was the conclusion of John Goodman of the Agriculture & Horticulture Development Board (Meat Services) in April 2008 that while the building itself was fundamentally sound, "only a full upgrade to all areas would be acceptable" if the facility were to be upgraded in any form whatsoever.
- 3.3 The Boddam slaughterhouse was formerly owned by the Smith family, before being acquired by the Shetland Development Trust (SDT) for the sum of £50,000 in 2006, and from 2006 to date has been leased from SDT by Pure Shetland Lamb Ltd.

#### 4.0 Proposal

- 4.1 Pure Shetland Lamb Ltd proposes to buy back the Boddam slaughterhouse from SDT at a price of £50,000, this being the sum they received for it in 2006. Once this transaction is concluded, the company will purchase a plot of land at the east end of the existing property, and erect a new 360m sq. steel-framed building. This building will contain all the slaughter, processing, storage, cutting, packing and despatch facilities. The internal fittings (rails etc) will be sourced second-hand from outwith Shetland (at a saving of £251,781 over the cost of equivalent new equipment). The existing building meanwhile will be converted to provide an internal lairage and staff accommodation.

#### 4.2 Costs

Purchase of existing slaughterhouse from SDT	£ 50,000
Land purchase	£ 5,000
Secondhand abattoir fittings & equipment	£200,000
New building, construction thereof, conversion of old building, & permits	£220,300
Transport of materials from south	£ 8,000
Contingency	£ 10,000
Extras	<u>£ 10,000</u>
TOTAL	<u>£503,300</u>

#### 4.3 Funding

Personal Cash	£ 53,300	10.6%
SIC	<u>£450,000</u>	<u>89.4%</u>
TOTAL	<u>£503,300</u>	<u>100%</u>

## 5.0 Financial Implications

5.1 The grant of up to £450,000 will be funded from the following budgets:

Agricultural General Assistance (RRD 1133 2402)	£250,000
Other General Assistance (RRD 1520 2402)	£200,000.

5.2 Pure Shetland Lamb are applying for grant assistance to be delivered via the *de minimis* mechanism, and specifically the “Temporary framework for State aid measures to support access to finance in the current financial and economic crisis” (hereafter referred to as the “Temporary Framework”). The Temporary Framework was introduced by the European Commission in December 2008 in response to the deepening global economic crisis, and seeks through a number of measures to allow nation states in the European Union more flexibility in how they can apply state aid. One of these measures is designed to allow for an enhanced level of *de minimis* funding for companies in difficulty totalling 500,000EUR. Any grant assistance provided under this measure must be delivered to the company in question by 31 December 2010. At the current exchange rate, 500,000EUR equates to approximately £450,000.

5.3 A company in difficulty is defined by the EC for the purpose of the Temporary Framework as follows:

“An SME shall be considered to be an undertaking in difficulty if it fulfils the following conditions:

- (a) in the case of a limited liability company, where more than half of its registered capital has disappeared and more than one quarter of that capital has been lost over the preceding 12 months; or
- (b) in the case of a company where at least some members have unlimited liability for the debt of the company, where more than half of its capital as shown in the company accounts has disappeared and more than one quarter of that capital has been lost over the preceding 12 months; or
- (c) whatever the type of company concerned, where it fulfils the criteria under its domestic law for being the subject of collective insolvency proceedings.”

5.4 Under the terms of the Temporary Framework, a company in difficulty must also demonstrate that it entered into difficulty after 30 June 2008. A public granting agency (such as the Council) must be satisfied that both of these tests (company in difficulty and the date at which it entered into difficulty) are compliant with the terms of the Temporary Framework.

5.5 In the case of Pure Shetland Lamb Ltd, Garrick Accountancy Services have provided a detailed review of the Company’s financial position at 30 June 2008, and thereafter (see Appendix 1). Their analysis of Pure Shetland Lamb Ltd concludes that the Company was not in difficulty in the period preceding 30 June 2008, and that the Company had entered into difficulty as per the criteria provided by the EC by 31 December 2008, by fulfilling condition (c) above.

- 5.6 This conclusion is supported by our own assessment of the Company's trading accounts (see Appendix 2). Table 1 provides an abstract of the salient data.

<b>Pure Shetland Lamb Limited</b>	<b>Year ending</b>		<b>Period ending</b>	
	<b>31 March</b>	<b>31 March</b>	<b>3 months to</b>	<b>9 months to</b>
	<b>2007</b>	<b>2008</b>	<b>30 June</b>	<b>31 Dec</b>
	<b>£</b>	<b>£</b>	<b>2008</b>	<b>2008</b>
			<b>£</b>	<b>£</b>
<b>FIXED ASSETS:</b> Plant and Machinery	12,787	14,090	13,209	10,732
<b>CURRENT ASSETS</b>				
Stocks	30,875	25,372	23,341	8,184
Debtors	42,476	17,384	25,985	13,912
Bank	568	100	476	278
<b>CREDITORS</b>				
Trade creditors	(81,255)	(35,686)	(42,932)	(23,383)
Directors current accounts		(7,435)	(7,435)	(7,435)
Bank overdrafts		(2,898)	-	-
Other creditors	(960)	(1,023)	(703)	(863)
Amounts falling due within one year	(82,215)	(47,042)	(51,070)	(31,681)
<b>NET CURRENT LIABILITIES</b>	(8,296)	(4,186)	(1,268)	(9,307)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	4,491	9,904	11,941	1,425
<b>CAPITAL AND RESERVES</b>				
Called up share Capital	100	100	100	100
Profit and loss Account	4,391	9,804	11,841	1,325
	4,491	9,904	11,941	1,425
	<b>Year ending</b>		<b>Period ending</b>	
	<b>31 March</b>	<b>31 March</b>	<b>3 months to</b>	<b>9 months to</b>
	<b>2007</b>	<b>2008</b>	<b>30 June</b>	<b>31 Dec</b>
	<b>£</b>	<b>£</b>	<b>2008</b>	<b>2008</b>
			<b>£</b>	<b>£</b>
<b>Turnover</b>	502,537	303,451	76,795	128,247
<b>Gross Profit</b>	85,727	50,250	11,991	15,761
<b>Total overheads</b>	92,598	44,814	9,954	24,240
<b>Profit /(Loss) before taxation</b>	(6,871)	5,436	2,037	(8,479)

Table 1 – abstract of Pure Shetland Lamb trading accounts

- 5.7 In the period from 1 July 2008 until 31 December 2008, the Company only managed £51,452 of turnover. The resulting Gross margin of £3,770 was insufficient to meet the running costs of the business totalling £14,286. A resultant loss of £(10,516) was generated in the period from 1 July 2008 until 31 December 2008.
- 5.8 Prior to the period beginning 1 July 2008 the Company had experienced a gradual contraction in turnover, from £502,537 for year ended March 2007, and £303,451 in the following year. The Company remained profitable due to severe cost cutting (£93k down to £45k).
- 5.9 Examination of the Company's aged creditors ledger at 31 December 2008 reveals that 92% of creditors were more than 60 days old. At 31 March 2008, by comparison, only 10% of creditors fell into this category. The Economic Development Unit has received letters from 12 creditors detailing their individual cases some of which relate to transactions as far back as 3 years ago; meanwhile, the Company has agreed that it will settle in full all outstanding debts over 60 days old prior to receiving any grant monies from Shetland Islands Council – a sum totalling approximately £21,000.
- 5.10 Disregarding Directors' current accounts, which could be regarded as loans, the position at 31 March 2008 was that the Company had net current assets of £6,167; however, these became net current liabilities of £(1,872) during the period from 1 July 2008 to 31 December 2008.
- 5.11 In conclusion, since the Company only started experiencing difficulty after 1 July 2008, it has demonstrated that it meets the EC criteria in relation to the definition of a company in difficulty as a result of the global economic crisis, and as such any *de minimis* grant provided to Pure Shetland Lamb Ltd under the Temporary Framework would be compliant with State aid legislation.
- 5.12 The financial projections for the Company covering a period of 3 years have been analysed to confirm viability of the project. The key figures and summary analysis are contained in Appendix 3. In brief, the projections demonstrate that the Company is viable and that an upgraded slaughtering facility would benefit the Company's profitability and sustainability in coming years.

## **6.0 Policy and Delegated Authority**

- 6.1 This report has been prepared with regard to the economic development pledges contained in the Council's Economic Development Policy Statement. The Policy Statement was approved by the Development Committee on 24 April 2008 [Min Ref: 01/08] and by the Council on 14 May 2008 [Min Ref:55/08]. The proposal is in line with the main aim:

“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”

In particular, the following policies are relevant:

- Policy 9 “Add value in all areas of production, but especially in meat products and wool”
- Policy 23 “Facilitate new food & drink processing activities”

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 is covered by existing policy the Development Committee does have delegated authority to make a decision.

## **7.0 Observations**

- 7.1 Pure Shetland Lamb Ltd see the substantial upgrade of the existing slaughtering facility at Boddam as a great opportunity to build on their existing business as a supplier of Shetland-grown meat to the local, national and international markets; to develop the promising ethnic (halal) market; and to provide a slaughtering service for Shetland's agricultural community. The upgrade will allow Pure Shetland Lamb to improve operational efficiency and increase throughput by approximately 130%. The upgrade will allow the Company to meet the increasingly stringent meat processing legislation in coming years; and also the increasingly demanding requirements of the retail outlets to which it sells ( and hence benefits by way of better prices to other local producers of lamb, mutton, pork and beef who sell directly to the Company) and the local agricultural community to whom it provides a slaughtering facility.
- 7.2 Pure Shetland Lamb Ltd accounts for the financial year ending 31 March 2008 show that the Company was profitable; improving efficiency and thereby reducing operational costs; and was reducing its debt levels. The Company has worked hard to better its distribution capability and costs throughout the UK and to the Continent. The Company have provided a Business Plan in support of their application for grant assistance (see Appendix 3). Note that we have adjusted the plan supplied to us, to include the effect of depreciation on equipment, credit insurance and financing costs. The company records a small loss in year one (£9K), followed by two profitable years, recording profits of £56k (4.6%) and £31k (2.8%) respectively.
- 7.3 We have applied sensitivity to the model, and based on a projected contribution, (gross margin less variable costs) of 47pence per kilo sold, the estimated break even sales are 750 tonnes. This represents approximately 80% of the sales projected.

- 7.4 The company has not provided formal balance sheets, however, when we reconcile the increase in the bank account against profit adjusted for non-cash items (i.e. depreciation) we reconcile to within £16 k. This represents a difference of only 0.05% and proves the integrity of the model.
- 7.5 The last 2 financial years have seen exceptional events in the UK meat market – Foot and Mouth Disease in 2007 impacting negatively on meat exports, and the global economic crisis in 2008. However, going back to 2006 Pure Shetland Lamb Ltd exported significant numbers (approximately 7,000) of lambs to the Continent, and established good working relationships with exporters and retailers alike.
- 7.6 In the meantime, while these relationships have been maintained, Pure Shetland Lamb Ltd have identified new markets for ethnic meat (halal) and for the so-called “5<sup>th</sup> quarter” – offal and skins. Pure Shetland Lamb Ltd have provided the Economic Development Unit with documentary evidence of significant interest in these developing markets.
- 7.7 The Company proposes to access working capital via a factoring agreement with Bibby Financial Services. Through a factoring agreement, a regular supply of cash that matches 90% of invoice value is available as soon as goods have been delivered. Credit insurance is also provided that in the event of being unable to collect payment for goods that have been supplied to approved customers, 90% of the invoice value, which includes transport costs, is paid by the insurers. If necessary and if margins permit Bibby Financial Services will provide up to 90 days credit to both UK and foreign customers.
- 7.8 Pure Shetland Lamb Ltd has significant local support for their proposed development (see Appendix 4). In addition to a strong letter of support for Pure Shetland Lamb Ltd from J.W. Gray & Co., the Economic Development Unit has also received a letter of support signed by almost a dozen farmers and crofters from the South Mainland, including a number representing some of Shetland’s largest agricultural units.
- 7.9 The upgrade itself will involve improving access for livestock deliveries and articulated trailers at the point of despatch; within the facility itself there will be improved internal lairage, sheep, cattle and pig dressing lines, an electrical stunning system, elevator, automated skin, blood and gut removal systems, and a special ewe splitting saw. It should be noted that these specific upgrades are consistent with those identified by John Goodman of the Agriculture & Horticulture Development Board (Meat Services) in his report “Inspection and evaluation of Boddam and Laxfirth slaughterhouses for the Shetland Islands Council” (April 2008).
- 7.10 Pure Shetland Lamb Ltd have negotiated the supply of second hand abattoir fittings and equipment from a seller on the mainland. The seller has been contacted because of the delay in processing this application for funding and has confirmed that they will hold the sale of the equipment to Pure Shetland Lamb at the agreed price until 22 June.

- 7.11 As the existing slaughterhouse at Boddam currently operates as a multi-species facility, this application for grant assistance is viewed as a replacement service rather than a new service being supported to compete with the other slaughterhouse and meat marketing entity in Shetland (this being the Laxfirth slaughterhouse currently operated by the Shetland Livestock Marketing Group).
- 7.12 Pure Shetland Lamb Ltd currently employs 2 part-time staff, and the implication of the upgrade for the Company will be to strengthen the job security of these employees. There is however a less direct but no less significant implication for the wider agricultural community in Shetland, as a modern multi-species slaughtering facility is an essential piece of infrastructure for the local agricultural and food industries.
- 7.13 With regard animal transport regulations, and their implications for the outer areas of Shetland being able to access the slaughtering facilities at Boddam, the situation is as follows. Current legislation requires that anyone transporting vertebrate animals on journeys over 65km (approximately 40 miles) travelled distance as part of an economic activity must hold a valid transporter authorisation to do so.

There are two types of authorisation:

- a) Short journey (Type 1) authorisation for journeys over 65km and up to, and including eight hours duration, or;
- b) Long journey (Type 2) authorisation for journeys over eight hours.

The implication of this in a Shetland context is that for producers based anywhere north of approximately Mid Yell, a Type 1 authorisation is required for the individual in question moving the animals to transport them to slaughter at Laxfirth or Boddam.

## **8.0 Conclusions**

- 8.1 This report concerns a proposal by Pure Shetland Lamb Ltd to, in the first instance, purchase the existing slaughterhouse at Boddam from Shetland Development Trust, and subsequently to substantially upgrade the facility. The Company is only seeking grant assistance for the latter part of the proposal, i.e. the upgrade work. The Company has demonstrated a sound understanding of both the slaughtering and meat marketing trade, and has presented a viable evidence-based business plan.
- 8.2 The grant is being requested as a *de minimis* grant under the Temporary Framework introduced by the EC to assist companies that have entered into difficulty after 30 June 2008. Pure Shetland Lamb Ltd meet the necessary tests in order to be eligible for such assistance.



- 8.3 The provision of grant assistance will result in the continued part-time employment of 2 staff and will provide a modern multi-species slaughtering facility for the agricultural industry in Shetland.
- 8.4 The proposal complies with SIC policy to support the agricultural industry in Shetland.

## **9.0 Recommendations**

- 9.1 I recommend that the Development Committee:
- a) approve the sale of the existing slaughterhouse at Boddam by Shetland Development Trust to Pure Shetland Lamb Ltd for the sum of £50,000, and;
  - b) approve a *de minimis* grant of EUR 500,000 (approximately £450,000) to Pure Shetland Lamb Ltd towards the cost of upgrading the existing slaughterhouse at Boddam. Subject to the conditions specified in appendix 5.

Our Ref: NG/JJ RF/276  
Date: 17 June 2009

Report No: DV059-F





## **REPORT**

**To: Development Committee**

**22 June 2009**

**From: Head of Economic Development**

**DV069-F**

**Shetland Livestock Marketing Group Ltd – Business Review**

### **1.0 Introduction**

- 1.1 The purpose of this report is to provide Members with the Shetland Livestock Marketing Group Ltd (SLMG) business review, and to identify further action required and timescales.
- 1.2 This report has been marked as public with the written permission of the applicant, SLMG.

### **2.0 Links to corporate priorities**

- 2.1 The Corporate Plan contains policies to encourage sustainable development. Specifically, the policy to “Ensure all assistance schemes help towards funding market-led solutions” relates closely to the agricultural subject of this report.

### **3.0 Background**

- 3.1 A decision was made at a special meeting of the Development Committee on 26th February 2009 to provide SLMG with 50% of the cost of providing a business review and business plan, and to provide a lifeline support grant of £20,000 (min ref 20/09).
- 3.2 At the Development Committee meeting on 30 April 2009 a further decision was made to extend the delivery date of the report by one cycle and provide an additional £20,000 lifeline support grant (min ref 40/09). At the time of writing this report only the first lifeline support grant of £20,000 has been drawn down by SLMG.
- 3.3 The attached business review was received on Thursday 28th May and circulated to members on Tuesday 2 June 2009.

## **4.0 SLMG Business Review**

- 4.1 SLMG have identified in the review various options to take the business forward.
- 4.2 Within the review there is a call to action where it is suggested that a representative project team or steering group is set up as soon as possible to start taking the project forward. It should be noted however that it would not be appropriate for Members or officers representing SIC to be involved in that group, unless the group is addressing the wider agriculture industry plans as apposed to SLMG activities.
- 4.3 It is also highlighted in the review that action is needed urgently to secure the marts operation for the coming season and that Aberdeen & Northern Marts and the livestock producers would need to know in June if SLMG and the marts will be operating.

## **5.0 Proposal**

- 5.1 That SLMG are requested to provide a sustainable business plan for all or part of its operation, and that any connected request for funding assistance is state aid compliant.

## **6.0 Financial Implications**

- 6.1 There are no financial implications arising from this report.

## **7.0 Policy and Delegated Authority**

- 7.1 This report has been prepared based on Economic Development Policy number 8 which states “Shift the emphasis of the agricultural industry in Shetland to a market led economy which is less reliant on EU and UK subsidy payments” (Dev. Comm. Min. Ref. 01/08), (SIC Min. Ref: 55/08). The development of a sustainable business around abattoir, marts and marketing operation will help to deliver that policy.
- 7.2 The Development Committee has delegated authority to implement decisions within its remit for which the overall objectives have been approved by the Council, in addition to appropriate budget provision, including:
  - Economic Strategy
  - Europe

## **8.0 Conclusions**

- 8.1 SLMG are looking for some direction from the Council as to whether the Council will fund a new purpose built abattoir at the site of the marts. The Council however is not in a position to provide that guidance and indeed is not in a position to make a decision on a new abattoir until a state aid compliant funding mechanism is identified.

- 8.2 SLMG must therefore be advised that they should base their short to medium term business plans on there being no new abattoir

## **9.0 Recommendations**

- 9.1 I recommend that Members note the content of the attached SLMG business review.
- 9.2 Request SLMG to provide a sustainable business plan and funding request that is compliant with state aid legislation.

NRJG/KLM/RF1041  
15 June 2009

Report No: DV69-F





# **Business Review of Shetland Livestock Marketing Group**

## **Draft Final Report**

<b>Prepared for SLMG</b>	<b>Prepared by A B Associates Ltd</b>
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Lerwick	Scalloway
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**4<sup>th</sup> June 2009**

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2. Plans of Marts Site and Lairage
3. Existing Accounts
4. Financial Projections
5. Shetland Lamb Marketing Report



# 1. Introduction

## 1.1 Brief

A B Associates were asked to undertake a business review of SLMG, based on an outline proposal, to assess the current position and, following this, identify the options for the future of the company based on the needs of the industry. The work was to be phased as follows:

### **Background Assessment and Current Position**

*“An analysis of the current position of the cooperative will be undertaken. This will include assessing the recent and current financial position and immediate prospects.*

*This process will assess the previous three years of operation of SLMG and also the wider trends in Shetland and UK livestock and meat production. This will involve an investigation of operational procedures, marketing and sales efforts, and an expenditure analysis of SLMG and will seek to determine the factors behind the current problems that the cooperative are facing and should be able to highlight lessons to be learned.”*

The output from this phase was presented to the client before moving on to Phase 2.

### **Future Development**

*“The first step will be to review the wider needs of the agricultural sector in Shetland and the role of SLMG in meeting these needs. This will be followed by a review of the options for addressing the needs of the industry especially in organisational and marketing terms, and including the scope for developing additional income streams. The next stage will be to explore and assess the options open to SLMG. It will include a full and detailed SWOT analysis. This will help identify the potential opportunities open to SLMG in terms of diversifying its role, developing additional income streams, and making more of existing income streams. Expert advice on marketing will be fully utilised at this stage as well as on different organisational models.*

*The output of this second phase will be presented in a Business Development Plan (with financial projections) for SLMG/New Vehicle which will outline what measures the body needs to adopt, what areas it needs to develop, and the cost of implementing these measures. Again the wider Shetland context will be considered at this stage.”*

## 1.2 Methodology

The approach adopted involved several different methods with the main ones being:-

- Background desk based research into local and national trends in agriculture and into various reports on marketing and the development of abattoir facilities in Shetland
- Consultation with the industry and survey work to gather data and intelligence. SLMG held several open meeting to get the views of the industry and one to one consultations were held by ABA with over 40 individuals involved in the industry. This provided a wealth of material and views on the issues involved but did take a lot longer than anticipated due to the level of interest.
- Consultation with experts in national organisations such as SAC and SAOS
- The financial accounts of SLMG were examined and analysed using standard accounting practices to establish ratios and try to explain how the current situation has happened
- All this information was then analysed to come up with suggestions for action needed to help take the organisation and its activities forward on a sounder basis
- Finally financial projection were created to help establish the level of funding that might be required over the next few years

## 1.3 Background

The current Marts was built and paid for by SLAP at the Staney Hill site in 1995. The ground and land is owned by SLAP. The Building was funded by the Reserve Fund, an EU grant, and SLAP resources. The “Habro” building was constructed at the same time and was leased to North Eastern Farmers (NEF). This was funded by SLAP and the sale of the former NEF site at North Ness. The land purchase and construction of the Marts and Habro Building cost in the order of £1.5m at the time. An area of 23.67 hectares around the Mart is leased for grazing and lairage. Plans are attached in appendix 1.

The new Mart was operated by the newly formed **Shetland Marts Coop** who leased the building from SLAP for a nominal rent. They raised capital through issuing £100 shares that raised £50,000 from around 300 people.

The auction sales have been run and managed by **Aberdeen and Northern Marts (A&N)** in conjunction with the local operator. A&N provide the auctioneer, admin support, and banking facilities, while SLMG organises the sales events, takes bookings and manages throughput on the sales days.

**Shetland Abattoir Cooperative Ltd (SACL)** was formed in 1998 with around 300 members and took over the abattoir at Laxfirth from the Leslies, with funding from SIC/HIDB. SLAP purchased the premises and leases them to SACL.

**Shetland Livestock Marketing Group (SLMG)** was formed in November 2003 as a result of an amalgamation of 5 bodies:-

- Shetland Mart Coop
- Shetland Flock Health Association
- Shetland Animal Health Trust
- Shetland Abattoir Cooperative (but retained for legal reasons)
- Shetland Agricultural Association

The new organisation was set up in the renamed Rural Centre at Staneyhill to :-

1. reduce costs in running several organisations and reduce overlap between them
2. operate the auction mart
3. operate the abattoir at Laxfirth
4. undertake marketing
5. run the health scheme

**Staff:** A marketing manager was employed in 2004 for 3 years to manage the mart, abattoir, and the animal Health Scheme, to promote the Shetland Brand, and to encourage more throughput and sales. There has been no manager in place since April 2007.

He worked on the Shetland Brand and Taste Shetland Brand which was launched in August 2005 with 3 sub brands Island Lamb, Hill Lamb, and Seaweed Lamb. It was awarded a Silver medal in Daily Telegraph Taste of Britain Awards in Feb 2006.

The manager was supported by two office staff who changed several times causing problems with continuity. The admin staff left at the same time as the Manager (around May 2007) which caused some difficulty with the SLMG operation. No Manager has been in post since then though new admin staff were appointed.

The abattoir has a full time person in charge of the day to day running of it, who is supported by up to 8 slaughter staff during operation. During the sales at the marts up to 10 stock men are brought in to facilitate the process.

**Directors:** Currently there are 6 directors though the cooperative was set up with 8. They are identified in the table below which also illustrates the turnover in both staff and directors in SLMG over the five years of its existence.

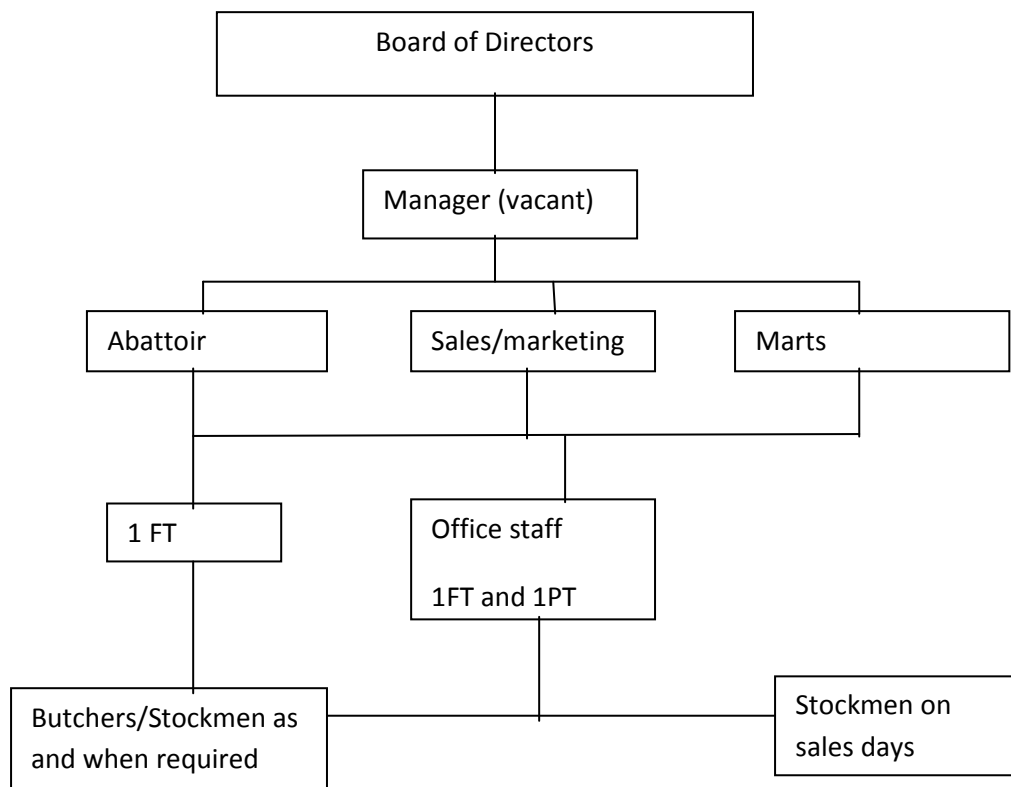
**Table1.1: Staff and Director Analysis**

	2004	2005	2006	2007	2008	2009
<b>Staff</b>						
<b>Marketing manager</b>						
Karl Simpson FT						
<b>Admin/Finance</b>						
Agnes Reid FT						
June Moulder						
June Burns FT						
Jean Isbister						
Hazel MacKenzie PT						
Peter Duncan PT						
<b>Slaughter Coordinator</b>						
Morgan Jamieson						
Lorraine Manson						
Stockmen (up to 8)						
<b>Directors</b>						
<b>Chairperson</b>						
Edwin Moar						
Jim Budge						
Ronnie Eunson						
<b>Vice Chair</b>						
Jim Budge						

[illegible]

The directors meet on a regular basis to oversee the work of the staff and provide advice and guidance. Individual directors take on specific responsibilities for particular parts of the business on an unpaid basis e.g. for grading, and for organising throughput at the mart.

The management and staff structure is as follows:-



**Members and Shareholders:** When SLMG was set up there were 232 members while currently there are around 265 paid up members. The amount paid is on a sliding scale relative to the size of operator and ranges from £20 to £50 per annum.

The Marketing Manager produced regular Newsletters, over his three years in post. These were circulated to all members. The Marketing Manager also made regular contributions to all local media.

The Shareholders with shares in the Shetland Marts Coop had their shares transferred to SLMG. Currently the called up share capital amounts to £58,905.

## 2. Analysis of Current Situation 2004-2008

Over the last five years, while the number of agricultural holdings in Shetland did not change significantly, the total numbers engaged in the industry has fallen. For example the full and part time (more than half time) numbers fell by nearly a quarter. Also total sheep numbers fell over this period by 22%. The cattle numbers overall have held up with only a 6% reduction.

The numbers of sheep exported fell from 128,139 in 2004 to 73,651 in 2007 which represents a reduction of 42%. Cattle exported on the other hand stayed relatively stable. The number of sheep in 2008 picked up a little at just over 80,000.

The numbers of sheep being sold through the Marts has remained relatively stable at around 30,000, however given the overall reduction in the total number of sheep exported then the percentage going through the marts has risen from between 20-25% to 35-40%. This has been a significant achievement for SLMG.

The total sheep slaughtered has varied significantly due to other factors such as disease issues, however the underlying trend at Laxfirth has been upward with nearly 200% growth in sheep being processed. This accounts for a significant majority of the total slaughtered in Shetland (over 90% in 2007).

The table which follows provides some contextual data on the industry as well as on SLMG since it started in 2004.

**Table 2.1: Background data on the Industry 2004-2008**

		<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Marts	Sheep	<u>29876</u>	<u>27701</u>	<u>31005</u>	<u>26636</u>	<u>26604</u>
	Cattle	<u>614</u>	<u>838</u>	<u>833</u>	<u>697</u>	<u>604</u>
	Ponies	<u>146</u>	<u>167</u>	<u>167</u>	<u>178</u>	<u>162</u>
Total Value of Sales		<u>£1.00m</u>	<u>£0.95m</u>	<u>£1.21m</u>	<u>£1.22m</u>	<u>£1.05m</u>
No. of sales		<u>-</u>	<u>32</u>	<u>21</u>	<u>21</u>	<u>18</u>
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Exports	Sheep	<u>128139</u>	<u>124246</u>	<u>81409</u>	<u>73651</u>	<u>80880</u>
	Cattle	<u>1763</u>	<u>2059</u>	<u>2158</u>	<u>1881</u>	<u>1850</u>
	Pigs	<u>6</u>	<u>16</u>	<u>12</u>	<u>0</u>	<u>0</u>
	Ponies	<u>198</u>	<u>261</u>	<u>36</u>	<u>11</u>	<u>182</u>
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Slaughtered	Sheep	<u>4331</u>	<u>5391</u>	<u>14105</u>	<u>8047</u>	<u>-</u>
	Cattle	<u>299</u>	<u>282</u>	<u>103</u>	<u>78</u>	<u>-</u>
	Pigs	<u>271</u>	<u>188</u>	<u>89</u>	<u>85</u>	<u>-</u>

	Other	-	-	-	-	-
		-	-	-	-	-
Laxfirth	Sheep	<u>2584</u>	<u>3900</u>	<u>5623</u>	<u>7708</u>	<u>5311</u>
	homekill	-	-	<u>1202</u>	<u>1587</u>	<u>1522</u>
	commercial	-	-	<u>504</u>	<u>778</u>	<u>803</u>
	purchases	-	-	<u>3917</u>	<u>5343</u>	<u>2986</u>
		-	-	-	-	-
FT/PT Occupiers		<u>538</u>	<u>511</u>	<u>452</u>	<u>442</u>	<u>410</u>
Holdings		<u>1990</u>	<u>1986</u>	<u>1972</u>	<u>1883</u>	<u>1876</u>
		-	-	-	-	-
Total livestock		-	-	-	-	-
Ewes/gimmers		<u>199163</u>	<u>186011</u>	<u>170199</u>	<u>164772</u>	<u>157853</u>
Total Sheep		<u>362961</u>	<u>343407</u>	<u>315554</u>	<u>305032</u>	<u>283750</u>
		-	-	-	-	-
Beef cattle		<u>2263</u>	<u>2348</u>	<u>2210</u>	<u>2137</u>	<u>2161</u>
Dairy cattle		<u>660</u>	<u>547</u>	<u>533</u>	<u>560</u>	<u>546</u>
other cattle		<u>3187</u>	<u>3294</u>	<u>3206</u>	<u>3054</u>	<u>3016</u>
Total cattle		<u>6110</u>	<u>6189</u>	<u>5949</u>	<u>5751</u>	<u>5723</u>
		-	-	-	-	-
Pigs		<u>38</u>	<u>43</u>	<u>61</u>	<u>109</u>	<u>91</u>
		-	-	-	-	-

Note: data not available for total numbers slaughtered in 2008. It is estimated that the total home kills in Shetland could be around 20,000 sheep per annum

Sources: Shetland in Statistics, Scottish Agricultural Census, LPA, and SLMG

## 2.1 Overall Financial Analysis

As has been well publicised SLMG have suffered from some financial problems. The following table 2.2 outlines the Income and Expenditure for the SLMG operation since 2004, as shown in their annual accounts. It has not been possible to disaggregate the expenditure figures for 2007 and 2008 due to a change in presentation



**Table 2.2: SLMG Finances 2004-2008**

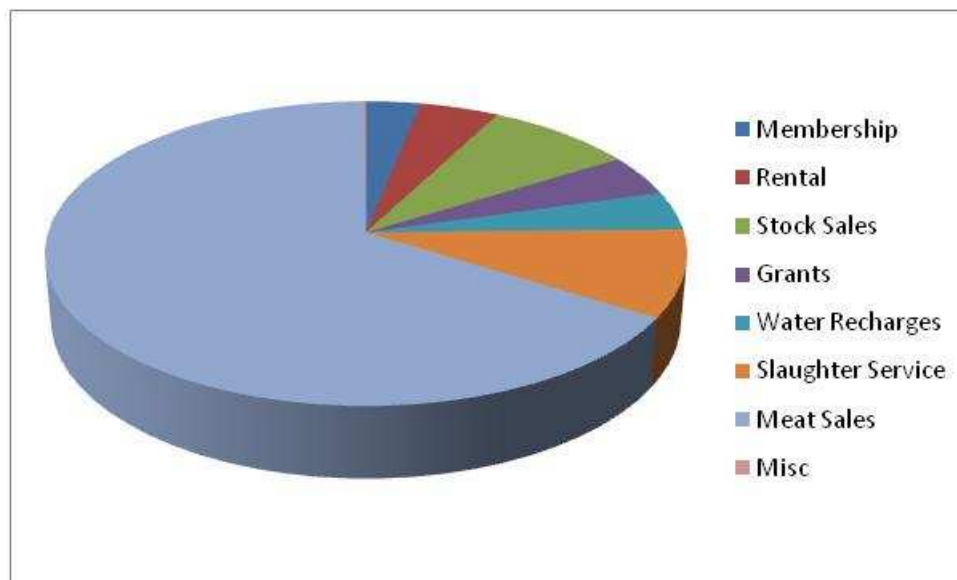
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\* 2008 figures are from Draft Accounts

It should be noted that the 2007 and 2008 expenditure includes £25,070 and £22,871 respectively which was written off as Bad Debts. If these bad debts had been avoided the cumulative position over the five year period would have been a deficit of £17,344, an average loss of £3,469 per year.

The following chart outlines the various income streams of the operation for 2008:

**Chart 2.1: Breakdown of SLMG Income by Source, 2008**



As the figures detailed in the table above show, SLMG is making a loss on current operations. At the current level of throughput at both the marts and the abattoir, the SLMG operation does not appear to be sustainable. Assuming all other factors remain the same, i.e. no change in costs or sale margins per animal, it would require

a throughput in the order of between 30,000 and 40,000 animals at the Marts and 11,000 lambs at the Laxfirth abattoir to break even. Some increased efficiencies would undoubtedly result at these higher levels of throughput and the breakeven point may be lower, but it is still at a level that is unlikely to be reached in the immediate future.

## **2.2 The Abattoir**

Looking at the abattoir operation in 2008 in more detail, it is apparent that for every lamb that went through the Laxfirth facility, SLMG was making a loss of over £3 per head (average charge £10 with range £8-£14). In 2007 the situation was worse, with a loss occurring on each lamb before overheads were accounted for; in fact in every year of operation the abattoir side of operations has made a loss and would clearly point to it being a drain on the financial resources of SLMG. The main reason for this is the high fixed costs of around £700 p/w allied to the low slaughter service charges that have been adopted.

As highlighted in several local and national reports (see quote below), a single species abattoir is always likely to struggle to be financially viable and this is certainly a problem that SLMG suffer from at their Laxfirth operation which is limited to processing sheep.

“Throughout Europe it is increasingly difficult to operate a ‘sheep only’ slaughter plant profitably. Many such plants have ceased to trade in recent years simply because the number of ‘money making weeks’ during the year has been squeezed, as have the available financial margins. In an Island situation, particularly a very northerly located island such as Shetland, where the peak season is very short, these problems are even more acute”. (Cook, P & Whitely, H; 2005).

Most of the abattoirs throughout Scotland, especially the smaller ones, are in difficulty and have to get additional income streams from added value activities.

Projections compiled for a multi-species operation at Blydoit in Scalloway show a breakeven point of 8,000 lambs and 100 cattle and pigs, which is perhaps more achievable and realistic than achieving a throughput of over 10,000 lambs. However, the ability to slaughter more than sheep will require either an upgrade to the Laxfirth facility or a new facility elsewhere.

The lack of cutting space at the abattoir is also one of the contributory factors behind the company selling sheep at a loss, as it is very difficult to add value to the produce at the facility and extract a greater sales price. Marketing efforts have attracted a number of customers and demand for the Shetland product however the economics of meeting these demands and obtaining all year round supply of lambs has been a challenge that SLMG and its members that have risen to and met.

The abattoir/meat sales is the element of the SLMG that carries the highest risk, as evidenced in the problems of bad debts that the company is currently suffering from. A total of £25,070 of bad debts was written off in 2007, and £22,871 has been written off in 2008. This is clearly an issue that needs to be addressed in the future through operational and financial risk planning, including building in safeguards to minimise risks. At the very least a more stringent vetting process of clients, clear definition of terms of sale, and a provision for bad debts should be implemented.

The abattoir currently purchases lamb for resale in meat markets that SLMG has secured and also offers a slaughter service to members and non members (the former pay reduced rates). An analysis of the accounts suggests that these slaughter services, especially the “Home Kill” service are provided at a loss, even although there is a lower cost per animal (i.e. no grading or transport). This cannot be sustained unless the number going through at the commercial rate increases.. However it is undoubtedly of greater wider benefit to offer this service to reduce the number of actual home kill operations that are conducted throughout Shetland every year.

Assuming operations and throughput remains at the same level as 2008, in order to secure a profit on each lamb that passes through the abattoir, a service charge of on average £10.00 must be made in order to just cover wage costs alone, and not accounting for overhead costs, which are likely to add another £4 or £5 to the cost. A margin on each sale of £15-16.00 must also be made for all SLMG purchased lamb that SLMG market and sell. This ignores inflationary increases in costs which is likely to further raise the required margin in 2009.

Measures have already been put in place by the directors for 2009 which should help improve the picture with more accurate pricing of sales, although undoubtedly a full time manager would help to ensure this continues and new markets developed.

Questions have also been raised about the method for sourcing lambs and prices paid by members, about the “unjustifiable commercial kill rate”(which is based on a misunderstanding and assumption that the homekill rate is commercial), and the fact that SLMG might appear to be in competition with other operators who are putting their animals through the abattoir.

It is clear from the data available that SLMG is paying the same commercial rate for lambs going through the abattoir as the other commercial operators. The type of animals purchased by SLMG from members is determined by market demand therefore, while, every effort has been made to spread the numbers around as many members as possible, the numbers purchased from any producer will be based on the animals that meet the specific market requirements. If no member can provide suitable lambs when required then non members are approached to source animals

Despite the financial performance the **Score Card** for the abattoir has quite a few pluses.

**Table 2.3: Score Card for the Abattoir**

<b>Plus points</b>	<b>Minus Points</b>
Throughput doubled over 5 years	Killing income not covering all costs of killing
Provides a home kill service	Not covering annual overheads
Maintained and improved prices for producers	Members not aware enough of what needed and when
Enabled local food procurement to develop with benefits to tourist industry	Facilities at Laxfirth have limited chill and cutting capacity and inadequate lairage space as well as poor access
Held successful workshops for grading with QMS	Laxfirth unable to slaughter cattle

SLMG has just recently introduced a new lamb register to help identify and make it even more transparent the source of lambs being purchased. Also the terms used to describe the different services have been amended to help reduce misunderstandings. The “homekill” rate is now “slaughter/collect” rate and “commercial kill” is now “slaughter/deliver”, both of which have member and non-member levels i.e. members get a 20% discount. The relevant rates for 2009 are:-

	Member	Non member
Slaughter/deliver	£11.00	£14.00
Slaughter/collect	£8.45	£10.25

A copy of the full schedule of rates for 2009 is attached in appendix 1. This includes all the extra charges for further services such as cutting and delivery. While it is appreciated why members get such a substantial discount it does mean that costs are not covered at this level either.

## 2.3 The Marts

There are around 18-20 sales days per annum which takes 2 people 3 days work. This amounts to around 120 days work in the year out of total available days of 330 (1FT and 1PT). In addition there is one other person who helps on the day of the sale (+20 days). Stockmen are also employed (up to 10) to handle the animals on the day of the sale. A&N also send up an auctioneer and admin person for the day of the sale.

The sale process is very labour intensive and it is difficult to get away from this due to the volume of stock being handled in a short space of time, and the need for the necessary paperwork to get to the boat for onward shipping of animals.

In 2008, considering the Mart side of operations alone, SLMG made a direct income of an average 85p per animal in the form of recouping of sales expenses (i.e. office wages and overheads) from Aberdeen and Northern. Aberdeen and Northern manage the sales and SLMG recoup the costs of providing the facilities to them. (any profit/loss from the whole operation is then shared 50/50 with Aberdeen and Northern Marts). However the total wage costs of SLMG including administration in pre and post sale days was in excess of this figure. Income in the form of rental did provide an additional revenue stream to SLMG from the building, but not enough to avoid a small overall loss per animal passing through the Marts. Additional income in the form of rental comes in the form of offices leased to SAC, Shetland Credit Union and Shetland Rural Development Advisors, and the provision of storage space during the winter for caravans, boats, etc.

Assuming current levels of operation and sales prices it would require in the order of 30,000 to 40,000 animals passing through the marts on an annual basis to break even, based on the overhead allocation in the accounts. However as income is based on commission, income from sales is 100% reliant on the sales value of stock, and increased sales prices will result in a lower breakeven point.

A&N have said they are still committed to running the sales in Lerwick and are willing to work with SLMG and the producers to help ensure a mart can continue. They have no aspirations to take over the whole operation but if SLMG was unable to continue they would work with the Council or whoever to make sure that sales take place. They have expressed some concern about any potential uncertainty about what might happen this autumn and would hope that a decision can be reached very soon so that producers confidence in the mart is not undermined. It is felt that an announcement needs to be made soon to the effect that sales will go ahead this autumn.

A lot of comments have been received regarding some of the perceived issues with the marts service that results in a **Score Card** with a substantial list of minus points. **However many of these do not stand up to scrutiny or have clear explanations.**

The mart is still well used by local producers and buyers and is seen as vital for the whole industry. Local producers rely on the mart to provide a benchmark for prices, especially when selling privately.

**Table 2.4: Score Card for the Mart**

<b>Plus Points</b>	<b>Minus Points</b>
Maintained number of stock going through and increased proportion of total available	Very labour intensive with a lot of handling, and thus costly operation (as mentioned above this is difficult to reduce)
Good prices on the whole for cattle and sheep	Problems with paperwork (comments not very specific but appear to be delays. A new system was introduced in 2008 by A&N without enough training and did cause some problems)
The number of sales have been rationalised and savings made	Order of sale (everyone wants the best time and not to be last. The order is determined by a combination of lot sizes, breed, and type of stock and available pens as well as a first come first served basis)
Expertise of A&N and Thainstone link	Poor organisation and problems moving animals through, resulting in a long sale period (this not accepted as being the case by SLMG or A&N)
Majority of sellers/consigners paid before they leave the sale	Lack of “real” buyers i.e. physically present at sale (in 2008 there were 56 different buyer (including at pony sale), also some buyers put in orders with the auctioneer or local dealers)
	Lack of confidence that will get a fair market price (evidence to support this as a general assertion is not clear as prices for quality animals have been achieving good levels.
	Commission considered high especially for small lambs (it may be slightly higher than Thainstone but producers have more other costs selling there)

## 2.4 Sales and Marketing

SLMG has built up a valuable customer base over the last five years both within Shetland and outside. 33% of the customers are from outside Shetland with the majority being local. 44% are tourist/visitor related as they are hotels and restaurants and North Link, and the remainder are local distributors and butchers. This has provided local producers with new and alternative markets for stock.

Considerable work has been done to develop the three Shetland Brands – Hill Lamb, Seaweed Lamb, and Native Lamb. It is important that the potential of this work is not lost and can be built upon for future markets.



**Table 2.5: Score Card for Sales and Marketing**

<b>Plus Points</b>	<b>Minus Points</b>
Recognition and reputation of Brand outside Shetland	Margin not high enough to become sustaining
Growth of new markets and meat exported	Volume not increased enough to generate sufficient income
Growth in local meat market	Bad debts have caused added problems

Overall the SLMG operation has brought significant benefits to the local industry and to the wider economy as seen in the **gross impact figures of £4m of turnover, 11.5 FTE jobs, and £1.2m income**. In addition there is the added boost to the hotel and restaurant trade through visitor spend and the feel good factor from being able to sample genuine local produce which is more difficult to quantify.



### **3. Initial Conclusions from Analysis and SWOTs**

As indicated above the current SLMG operation is not sustainable unless changes are made. This has arisen as a result of the combination of a number of market and internal company factors that have conspired to result in SLMG being close to collapse. The main factors are summarised below:

#### **Market Factors**

- Significant decline in stock numbers available over the period 2004 to 2008 e.g. over 20% drop in total sheep numbers in Shetland.
- Impact of Food and Mouth on the market

#### **Internal Factors**

- Loss of staff and lack of continuity, especially manager
- Lack of capital and assets
- Lack of adequate facilities for processing and storing carcasses
- Bad debts

#### **Other Factors**

- Withdrawal of animal health scheme and associated admin funding – this also saw a drop in members who had sought to support to support delivery of the health scheme through their membership contribution.
- Interface with members and industry – there was perceived to be a lack of information and communication with members, especially small producers

Given the combination of the loss of manager, loss of health scheme, bad debts, adverse market conditions, poor infrastructure/facilities, and lack of finance, it is quite remarkable that SLMG is still in operation. It is clearly a tribute to the tenacity and determination of those involved that the business is still going.

Despite these problems there have been indicators of progress especially in the first three years when the manager was in place and overall there has been a doubling of the animals going through the abattoir and an increase in the share of animals going through the mart from 23% to 33%, as well as new markets developed locally and outside Shetland.

Unfortunately there was not enough time to achieve a sustainable position for SLMG. It was also unfortunate that, towards the end of term of the grant for the Marketing Manager, attempts to get additional funding were not successful. Without grant funding it was not feasible for SLMG on its own to commit to a full time manager. If

the Coop had had an injection of capital and employed a new manager they might not have been in the current situation.

In addition it is clear that SLMG has played a vital role in the sector and has benefitted the economy as a whole. In direct terms this amounts to around £1m in purchases from producers and wages to employees over the 5 years.

SLMG activities have helped to maintain the agricultural holdings that use the marts and abattoir, this in turn will have further indirect spin off benefits to hauliers, feed, fuel and fertiliser suppliers, vets, builders, etc. If all these indirect activities are combined with the direct they give rise to significant benefits to the service sector through household and business expenditure in the retail and leisure sectors. This is summarised in the following table.

**Table 3.1: Economic Impact of SLMG**

	<b>Direct impact</b>	<b>Multiplier type 2</b>	<b>Gross impact</b>
Turnover over 5 years	£1.88m	2.135	£4m
Employment	5.5 FTEs	2.078	11.5
Income	£400,000	2.919	£1.2m

Source: the multipliers have been taken from the Shetland Regional Accounts 2003, Aberdeen University and ABA, and 1996/7 Shetland I/O table for the income multiplier.

The impact will go even wider than this since the lack of a mart or abattoir would have a knock on effect on all producers in Shetland. The industry as a whole is worth around £15m a year. If there was no mart and one limited abattoir at Boddam then most animals would have to be shipped out directly and sold on the mainland which could result in depressed prices and more costs to local producers.

In addition to this straight monetary value there are other benefits that are not picked up by this analysis, generally called “shadow effects”. These would include the increased business for hotels and restaurants through visitor spend on local produce and contribution to the whole visitor experience, whether on holiday or business.

The SWOTs analysis that follows indicates some of the main strengths of the operation as well as the main weaknesses and threats.

**Table 3.2: SWOTs Analysis**

<b>Strengths</b> <ul style="list-style-type: none"> <li>• Good Membership base</li> <li>• Committed directors/membership</li> <li>• Shetland Brand – Taste of Shetland</li> <li>• Positive external perception of SLMG</li> <li>• Unique product</li> <li>• Purpose built mart building with scope for development</li> <li>• Partnership with A&amp;N</li> <li>• Healthy high quality stock</li> <li>• Year round meat production</li> </ul>	<b>Opportunities</b> <ul style="list-style-type: none"> <li>• New markets for finished lamb/sheep meat outside Shetland in the UK and Europe</li> <li>• Good prices for sheep/better prices for currently low value stock</li> <li>• Potential for marts building/site</li> <li>• Diversification into new activities</li> <li>• Local food market</li> <li>• Tighter transport regulations for live animals</li> </ul>
<b>Weaknesses</b> <ul style="list-style-type: none"> <li>• Financial viability/sustainability</li> <li>• Lack of capital and assets</li> <li>• Loss of animal health contract</li> <li>• Limited financial control/monitoring</li> <li>• Cost of production and distance from market</li> <li>• Limited market development</li> <li>• Need for investment in premises</li> <li>• Difficult to retain staff</li> <li>• Seasonality of business</li> </ul>	<b>Threats</b> <ul style="list-style-type: none"> <li>• Lack of unity within the industry</li> <li>• Bad debts</li> <li>• Health/disease issues (e.g. F&amp;M)</li> <li>• Declining stock numbers</li> <li>• Increasing legislation e.g. transport</li> <li>• Lack of confidence</li> <li>• Lack of appreciation of cooperative provision of facilities</li> </ul>

The overall concept of merging several bodies into one was considered a good one by most people at the time, however circumstances have changed and it may no longer be such a good idea. It is possible that “it was set up too hastily” without some elements thought through such as shareholding as well as being based on an “optimistic” business plan. Clearly a number of lessons can be learned such as:-

**Lessons to be Learnt:**

- Cannot turn around business from such a low base in 3 years
- Margins too low, or negative in some cases
- Finding a balance between prices paid to producers and service charges, and making a sufficient margin.
- Undercapitalised at the beginning and never able to come ahead

- Need for fairer membership scale (smaller producers pay a lot more per head than larger ones)
- Need to improve communication with members
- Asked to do too much, effort spread too thinly with limited resources

## 4. Review of Agricultural Sector Views and Needs

SLMG held a round of consultations with the industry through 3 public meetings and a questionnaire. The meetings were held in Gutcher, Voe and Cunningsburgh and were attended by 125 people who actively engaged in discussion. The main conclusions reached at the meetings were:-

- It is essential to maintain a marts facility in Shetland
- It is essential to maintain and develop the abattoir and processing facilities

The meetings also resulted in 13 new members for SLMG and a £4,100 increase in subscriptions plus £640 in donations. This brought the total membership in 2009 to 249 (of which 43 are NEW members) with total income from subscription/donations at £9,855 so far this year. Membership has subsequently risen to over 265 and a number of members in 2008 have not yet rejoined so it is hoped that membership could be soon closer to 300. The total income achieved to date is £10,525.

The main findings from the questionnaire that SLMG distributed at these events were:-

***Q1: Do you believe the agricultural industry has an important role in the Shetland economy?***

All those responding thought that agriculture has a very important role in the Shetland economy

***Q2: Do you want to see the agriculture industry develop its full potential in terms of stock production and food production?***

Again all those responding were in agreement and would like to see the industry develop food product

***Q3: Do you believe the services of a Mart and Abattoir must be available to the agricultural industry***

There was a consensus that a mart and abattoir is required though there were some concerns expressed about whether there was enough finished stock. Without the mart then it was feared that producers would be at the mercy of distant markets.

***Q4: Should the range of services be widened to offer greater opportunities to producers?***

There was strong support for the widening of services such as processing facilities, electronic sales and ponies

***Q5: Do you believe the services should be operated by a Cooperative for the Benefit of the Community?***

Most were in favour of the idea though some unsure what it meant. The key point made is the need for openness, accountability, and transparency

***Q6: Should such a Cooperative own the assets?***

There was support for this suggestion but some questions about the money to buy them

***Q7: Would you be willing to pay an annual membership to a Coop?***

The answer here was a resounding yes though it depends how much and what you get in return. Everyone who uses the facilities should be members

***Q8: Would you be willing to take an active role on the Board of a Coop?***

Only a quarter of those responding felt able to contribute. There was a need for more younger people to be involved.

One to one consultation was also undertaken by AB Associates with around 40 individuals in the industry and associated with it to help piece together what has happened and to explore ideas for the way ahead. Some of the main points to come out of that was:-

- Again everyone was of the view that a mart and abattoir facilities were essential to the survival of the industry in Shetland

**Marts**

- There was general agreement that the design and layout of the marts was not the best and there was a need for changes. This resulted in it being difficult to run an auction within a reasonable timescale
- Vital to have a mart, would be at serious disadvantage if not there and possibly result in a significant loss of income
- There was agreement on the need to attract more “real” buyers (i.e. physically present)
- Some felt there was a need for a new body to run the mart as A&N have no incentive to make it work as they also operate the Thainstone mart in Aberdeenshire

**Abattoir**

- There was some distrust and suspicion surrounding the way the abattoir and meat business was run in relation to the selection of sheep, different charges, priority for suppliers of sheep, and competition with crofters own markets
- Considerable issues were raised regarding the Boddam facility and thus concern if Laxfirth had to close
- A fundamental problem raised was fact that animals need to be killed when they are ready but this is not always when the market wants them
- Need different charges for different animals e.g. native Shetland lambs and larger cross breeds

## Overall

- There were concerns about the apparent unfairness of the membership rates

There was a view that *“the SIC should run the slaughterhouse and ensure it was cheap, adaptable, and available to all”*, and also that the key running costs of both abattoirs should be supported equally

It is clear from the responses that the marts and abattoir are valued services and are seen as vital for the future of the industry. However there are also a number of concerns regarding the management and running of the facilities that need to be addressed in order for everyone to have more confidence in it. If, as the industry is suggesting, there is a need to continue and develop the marts and abattoir service, then action is needed to address the issues identified from the analysis of the existing situation.

## **5. Wider Market Trends and Marketing Review**

This section looks at some of the wider trends in the industry and factors likely to influence the future of the industry in Shetland. What is likely to happen to stock numbers? What is demand and costs likely to be?

There are concerns that stock numbers in Shetland will continue to decline as has happened over the last few years. Clearly this would make the viability of either the mart more difficult.

The decline in sheep numbers in particular has been across the board in all types, not just Shetland hill sheep, but also in bye and cross animals. The factors that could contribute to further falls are obviously the support regime and regulations, and policy changes. If there is more difficulty with the payment system and less recognition of special island circumstances within LFA status, this could accelerate the decline. The proposals for electronic tagging of all sheep could cause a further contraction and the changes proposed to the regulations governing the transport of animals is also a cause for concern unless the boat journey to the mainland receives a derogation. The current SRDP schemes are “not likely to encourage growth” according to SAC and the new Crofting Bill is not seen to have many positive outcomes for crofters.

However on the more positive side there is a new LFA scheme proposal as well as changes to the single farm payment that might encourage more stock; and market demand is expected to be sustained for both sheep and cattle, despite the recession. There is strong evidence that sheep prices are holding up and that producers can expect good returns this autumn.

The general perception is that stock numbers are near the bottom in Shetland and are not likely to fall much further. Numbers are expected to remain at around current levels over the next 4-5 years. Post 2013 might see some further changes in agricultural policy and support schemes which could cause further decline. On the plus side the reduction in numbers and stocking density does appear to have increased quality according to a number of observers.

The balance between producing and selling live store animals and finished animal for slaughter could alter depending on the price for value added products. There is considerable conflicting evidence around about the economics of finishing animals in Shetland. Some producers claim it is possible and worthwhile to finish animals while others claim the opposite if you include all costs for feed, fertiliser, housing, medicines, and time. The latter is particularly the case if there is a need to import feed from outside Shetland. If you can grow or source some feed crop e.g. barley locally then the chances of finishing in Shetland improves. However at best it



appears to be marginal for most local producers, though Karl Simpson concluded from figures presented in a previous business plan that “the economics of finishing lambs is beyond doubt”. There is a need for more systematic research to establish the current situation more precisely given the rapidly changing cost factors..

Nonetheless a local abattoir is seen by all to be essential for local markets, tourism and animal welfare reasons.

One of the main strengths of Shetland agriculture are seen to be the ability to produce high quality store animals that are healthy, disease free, and hardy. The long term sustainability of Shetland agriculture depends on Shetland taking advantage of its ability and environment to produce products that are distinctive and of a high quality and thus sought after in the market.

However the downside of Shetland’s location is the long journey to the mainland during which sheep especially lose weight and condition. This is especially a problem with the smaller animals therefore it would be better if more could be killed in Shetland and the full value of the weight would accrue to Shetland.

### **Markets for Shetland Products**

There are at least two very different markets for Shetland sheep meat in two very different geographic locations. There is the demand for (a) a seasonal product – new Shetland lamb both native and cross animals, and (b) all year round mainly for cross animals i.e. the larger carcasses are preferred. Then there is the demand from the local market and from outside Shetland in the UK and in Europe. There is evidence of a premium being possible from discerning customers through specialist butchers, but there is more resistance to paying more locally.

Unfortunately supplying the local market is not as straightforward as it might be as most consumers are price driven and will buy lamb and beef at the supermarket which is all imported. It is difficult to secure a premium from either local households or the larger purchasers such as the SIC and NHS. While the latter have a responsibility to seek value for money they should also have a wider responsibility to buy local where possible.

Outside Shetland there are several niche market areas which have discriminating consumers who are looking for quality produce. There are high class butchers e.g. in Edinburgh and London that buy Shetland native lamb. These are markets that SLMG have been targeting with some success. Unfortunately some of these have been lost due to the lack of a manager. There is evidence that with a little bit of work some of these could be secured again in the near future, such as Billfields (Marketing Report of March 2009, Appendix 5).

In addition there are market areas abroad though some of these can be more difficult to supply. There has been interest for some time from a retailer in Belgium who is wishing to source Shetland lamb in season. They would be looking for around 4000 native lambs over a 10 week period. If such an order was secured it would transform the SLMG operation and be of particular benefit to native sheep producers.

A recent study of the marketing and sales opportunities for Shetland lamb on the UK mainland was undertaken by SAOS in association with Axle Associates (Appendix 5). They undertook a survey of existing and potential customers in the wholesale butchers and distributors. Their report concluded that the initial response from Catering Butchers “proved beyond reasonable doubt there is a realistic opportunity to market Shetland lamb in a branded format, especially if supported with a registered trademark. A realistic target for sales could be 48,000 finished lambs per annum.” This is clearly more than is likely to be available but it does show the level of potential.

The work done to establish the Shetland Lamb brand and three subtypes of Hill Lamb, Island lamb, and Seaweed Lamb has generated a positive response from some markets and needs to be built upon and nurtured. Action needs to be taken to address the needs of the different markets and to ensure a consistent quality product is delivered on time. This is challenging and, without a manager, verging on the impossible but to the credit of those involved at the Laxfirth abattoir product quality leaving the facility has not been an issue. Unfortunately where product has to pass through extended delivery chains to reach a customer maintaining this quality has on occasion been a problem and orders lost as a result.

A great deal of work is required to secure and maintain these outlets and even more in managing an effective distribution system. Transport has been the weak link in the chain and it is important to ensure that the product is kept at its best all the way to the consumer. The lack of properly equipped chilled trailers has been a problem in the past and needs to be addressed if larger orders are achieved.

The development of value added products is seen to be vital for two key reasons:-

1. It provides an additional profit margin to help cross subsidise the killing process
2. The development of more local food products for the local market as well as visitors is seen to be essential for two reasons:-
  - a. Reducing the carbon footprint and food miles
  - b. It increases the value of the visitor experience and attractiveness of the place for visitors and is therefore a vital underpinning to undertake marketing of Shetland and Shetland products

Shetland is a high cost visitor destination that appeals to the upper end of the market that have more disposable income to spend. They are willing to pay a premium for a quality and distinctive experience.

By contrast all the store animals that go south lose their identity and become someone else's product. They are reaping the benefits of the good quality disease free stock from Shetland but the customers buying the resultant meat are simply buying Scots lamb or beef.

## 6. Outline of Options

The cooperative may be on the verge of having to cease trading very shortly. Thus a number of possible courses of action have been considered to try to get the whole operation onto a more sustainable basis so that the essential services of an abattoir and marts are maintained for the benefit of the agricultural industry and the wider economy in Shetland. Some of the actions that have been considered include short term support, increasing income in core business, reducing costs, increasing income through diversification, securing funding, and raising confidence levels:-

1. **Short Term Support:** The current operation is not viable and cannot continue in its present form without some financial support. This is required to maintain the service until the medium term measures have an effect. The level of likely support has been calculated and is included under the resources required section.
2. **Charges:** One possible action considered for SLMG is to increase its charges on existing throughput. In order to breakeven this would mean the charges for slaughtering rising (a small rise has been projected for 2010 and on). However this may affect the throughput and not have the overall desired result of increasing sustainability. It is suggested there could be scope for a Service Level Agreement with the Council to pay the difference between the commercial rate and homekill rate in order to encourage more crofters to use the abattoir rather than kill on the croft.

The commission rates on sales through the marts are relatively high compared other small facilities in Scotland, therefore there may not be much scope here and there is not the same need to consider increasing it.

It may also be necessary to consider simplifying the charges and significantly increase charges for non members.

3. **Membership and Fees:** Increasing membership and therefore fee income is another possibility given that there are around 265 members. There were around 600 members to the Shetland Animal Health Scheme when it was offered with free membership. Also extending membership to those outside the sector but with an interest in it may be possible e.g. through associate membership.

An alternative may be to have no membership fee and simply charge for services and usage could bring membership, voting rights, and other indirect benefits. However it does provide some valuable income and the fee rates are quite low. The structure of the fee rates needs to be revisited so that there

is seen to be a more equitable contribution from all sizes of members based on livestock units.

4. **Reducing Costs:** There may be scope for efficiency savings and reducing some of the running costs. These have been investigated and included in the projections.
5. **Throughput:** Another action would be for SLMG to increase throughput at both the abattoir and marts. The former would ideally mean cattle being slaughtered as well as sheep. If throughput increased to 6,000 sheep, and around 150 cattle were processed the operation would break even. This is considered feasible without a significant increase in fees.

Regarding the marts, only about a third of the sheep exported from Shetland go through the marts therefore there may be some scope for an increase here as well, though it is not considered to be significant.

A mechanism to increase commitment to using both facilities is needed. A number of different ways have been explored such as one method used in relation to an abattoir in Canada where producers purchase hooks in advance with different rates at different times of years. Another variation could be developed for new orders for carcasses with producers being asked to commit to supply lambs and pay a deposit in advance. This would be repayable when the order is supplied and SLMG paid by the customer.

An increase in throughput is likely to require the development of new markets opportunities e.g. locally, or using health or other special attributes to attract new external markets.

6. **Range of services to crofters and farmers:** Increasing the range of services is another possibility, such as:- processing, marketing, research (in conjunction with education institutes), health scheme, advice and support with funding, and land management and conservation activities, machinery sales and servicing, training.

Other innovations have been investigated such as setting up an electronic facility at the mart with live sales using electronic displays and/or online sales. This could reduce the need for the physical presentation of animals and reduce animal stress. It could also mean access to more buyers. It has been suggested this could be trialled for the pony sales.

7. **Diversification:** SLMG still needs to consider diversification and securing additional income streams. This is a trend that has happened at marts all over Scotland. Many of the other marts are struggling to survive especially with the

recent reduction in livestock numbers. Several closures are expected over the next few years.

Several marts have been successful at attracting other business such as the Lanark Mart which runs other events and hires out the space for trade shows, indoor car boot sales, farmers markets, dog and rabbit shows, dog training, rock concerts, functions etc. It also lets space for retail premises and sale of fresh fruit, vegetables, and fish, and undertakes property sales. Clearly the size of the local market in Shetland makes a number of these options unlikely but there could still be scope for some activities and other sales e.g. to build on the machinery sales.

SLMG could investigate acquiring the asset of the marts building and site and undertake some developments e.g. an extension to provide more office/retail space to rent, provide food processing units, secure dry storage, vet centre and wool operations. However the existing building is in need for some repair and maintenance which could amount to £50,000 to £100,000.

SLMG could develop into energy production either at the Marts site or at Laxfirth, or seek other contracts such as the handling of animals at the pier in Lerwick.

SLMG could consider moving into the tourist market and create a tourist attraction and educational facility e.g. a Rural Centre or Sheep Centre with interpretation of the Shetland breeds e.g. dogs, sheep, cattle, hens, and a range of facilities. Research could be another possibility linked to this.

8. **Confidence:** There appears to be a need to restore confidence in the whole process and introduce and modify systems to ensure maximum transparency and avoid any potential or perceived unfairness. The recent introduction of a more transparent booking system for the abattoir should help in this regard. Again a clearer explanation of ballot of order of sale at the marts would help increase membership understanding and confidence. A significant boost in confidence will result from the reintroduction of a manager for the organisation.
9. **Organisational Structure:** It is also considered useful to revisit the organisational structure of SLMG in order to address some of the concerns raised. A range of models have been considered such as :-
  - a. Status Quo: continue using existing Coop structure, possibly with some modifications re shareholding, area representation, sector representation, management structure
  - b. Company limited by guarantee with or without charitable status
  - c. Private Limited Company

- d. Different type of coop e.g. Coop for Benefit of the Community (Ben Com) There is no distribution of profits to shareholders and assets retained by the community
- e. Community Interest Company (this is a new form of not for profit company where the assets can be locked into community ownership)
- f. Charitable Trust

Some of the pros and cons of these alternative organisational models are summarised in the following table.

Model	Pros	Cons
<b>1. Status quo</b>		
a. without changes	Continuity, external reputation, least disruption	Baggage, debts, shareholders, lack of confidence
b with changes –e.g. no shareholders, no distribution of profit, membership and management changes, more non producer directors	improved transparency and management	Too closely associated with status quo
<b>2 Company</b>		
a. ltd by guarantee with members but no distribution of profits	fresh start, structure similar to status quo	no community element
b. ltd by guarantee with CT status, with members and no profit distribution	fresh start, not for profit organisation, community element	
<b>3. Private Ltd Company with shareholders and distribution of profits</b>	fresh start, run purely on commercial lines, free to undertake any activities	producer input likely to be limited
<b>4. Community Interest Company, shareholding possible but generally without, with members and non profit distribution, and assets held for public good</b>	fresh start, assets remain in public ownership, recognised as not for profit activity, strong member and producer input	

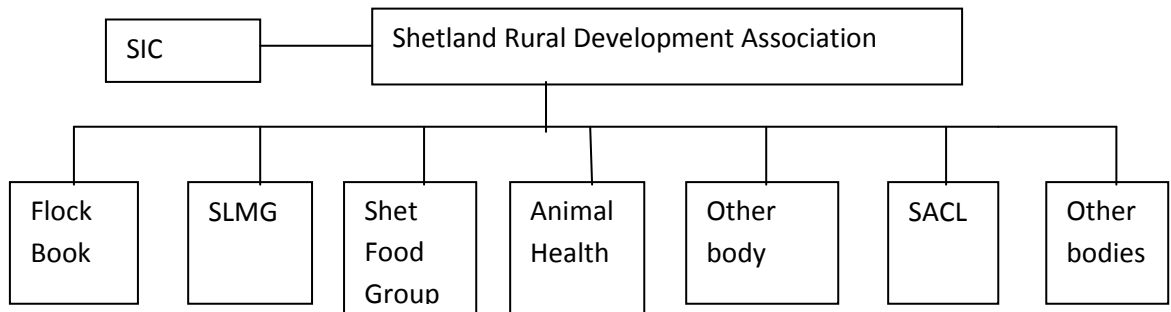
<b>5. Community benefit Coop, members, no distribution of profit, assets held for public good</b>	fresh start, same as four above	
<b>6. Charitable Trust</b>	could attract different funding sources, could own assets and provide services to wider community	limit on trading but could have trading arms if likely to be going concerns

Each of these has been reviewed to see which model is best likely to delivery the services, be fully representative of the industry, address concerns raised, and be able to secure the maximum funding support. The choice of organisational model will be influenced by how best it will meet the objectives of the industry in terms of transparency, accountability, and sustainability, while also being able to attract and secure the maximum funding.

This review provides the opportunity to take a slightly wider perspective of the organisations involved in agriculture and at how SLMG relates to them, and whether there is scope to consider an umbrella body to encourage more coordination and attract more funding. There is an argument that the fewer bodies the better, due to lower administration costs. This was the argument put forward to support the creation of SLMG out of five previous bodies. However if all eggs are in one basket and it fails then there can be difficulties as is being faced now with SLMG. It is perhaps fortunate that SACL still exists and could own and oversee the abattoir project and is still able to pursue the project with or without SLMG as the operator.

The creation of a high level body could be considered to own the mart facility and engage in a range of activities to develop the future of the agricultural sector and rural economy. It could be set up as a not for profit Body or Community Interest Company and have representatives from all the other agric related groups such as Flock Book, SLMG, Animal Health, Vets, Shetland Food Group, Shetland Organics, SACL. This could be a loose federation, with each component retaining independence, rather than all becoming a part of the whole. The diagram below provides an illustration of a possible structure and possible bodies that could be involved.





The review has also provided an opportunity to consider other different business models such as the marts run wholly by Aberdeen and Northern or in conjunction with or solely by another local (non agricultural ) business as part of their operation. If it was to be run locally the operator would require a bond and need substantial assets to be able to pay producers.

10. **Funding:** The options for funding are obviously crucial for the future of the services. The activity needs to consider all possibilities that will in turn influence the model and structure to be adopted. Some possibilities include :-
- EU/SRDP for marketing, processing, research, cooperative grant scheme. This could include grant for a new marketing manager
  - Lottery – for community ownership and buy out. This has been investigated and could be looked at again
  - SIC/SDT for de minimus grant or loan
  - HIE - grant for value adding
  - Private sources in the industry and outside
  - EU Interreg Programmes for cooperation projects with other areas
  - Scottish Government in conjunction with SRDP

## Conclusions

In broad terms the main options are:-

1. Status Quo – continue existing SLMG operations i.e. mart, abattoir, and meat sales within the one organisation; this would provide continuity but not able to continue without ongoing revenue support
2. Close SLMG and create a new vehicle or vehicles – this has some attractions in that it would enable a fresh start but it is high risk due to loss of continuity and experience, and likely to be higher cost
3. Modified Status Quo – this should enable continuity and be seen to addressing issues raised therefore be less risky and not so costly

The options for the future need to take account of the possibility of a new abattoir therefore there are at least another two sub options:-

- If no new abattoir possible within 12 -18 months and likely to be several years away then there would be a need to invest in existing facilities at Laxfirth to upgrade sheep capacity and processing facilities, and install a cattle line

either at Laxfirth or separately adjacent to the marts in the short term. The latter is urgent and if built alongside the mart it could be designed in such a way as to be convertible to meat processing when and if a new abattoir is built at Staneyhill.

- If a new abattoir can be created within the next 12-18 months then it may only be necessary to provide support to keep the existing facilities operating with little or no capital investment, though a cattle line would be desirable in the short term as well as more minor modifications at Laxfirth

## **7. The Proposed Option and Recommendations for Action**

### **7.1 General**

The conclusion from the analysis of the options, particularly organisational, is that it is unlikely to be advisable or productive to scrap what exists and create a new vehicle. Rather it would be better to build on what is there and adapt and modify to fit with current and future needs and circumstances.

A major factor in reaching this conclusion is the fact that it is likely to be costlier to go down the new organisational route and it can set back what progress has been made as well as goodwill achieved. Thus it is also riskier. SLMG has considerable intangible assets in its brand, its experienced, knowledgeable, and committed directors and staff. These need to be nurtured and developed in conjunction with new inputs.

It is concluded that a number of changes are required to practices, processes, and organisation in order to capitalise on the strengths and address the needs of the industry over the coming years. These changes and actions have been grouped into two timescales – the short term i.e. over the next 3 years, and the longer term beyond that. This has been done because some things take longer to achieve while life has to go on in the meantime.

In broad terms the model still has SLMG at the centre but in order to reduce the risks and increase transparency some disaggregation is proposed either through setting up subsidiaries or separate companies/coops, and in order to ensure coordination and avoid duplication and secure assets in the long term, an umbrella body is suggested which can bring the elements together and act in a wider role for the benefit of the industry.

While the ideal may be for there to be three separate organisations to focus on the three areas of work – the abattoir, the mart, and sales of meat, a two way split is possible immediately with SACL to run the abattoir and SLMG to focus on the mart and meat sales.

It is considered that each of the parts should retain ownership and control of their assets but that they pass to the umbrella body if there are any problems so that the asset stays in community ownership. It is felt this is likely to engender greater commitment and responsibility. It will also be necessary for each of the component parts to share the cost of overheads especially staff. This is developed further later in this section after the way ahead is built up bit by bit in relation to each of the key

activity areas, looking both at the short term i.e. over the next 3 years, and the longer term beyond that.

## **7.2 Abattoir**

Clearly in the longer term it would be desirable to secure one state of the art abattoir for all Shetland needs which would be open to be used by all sectors of the industry. This would have to be considered as a piece of essential infrastructure, just like the special containers for transporting animals on the boat, that would underpin not just the existing producers but a whole range of processors and new food products.

It is understood that £2.4m is still on the table from the SDT towards the cost of a new facility. However it may not be possible to achieve this in the short term due to a number of issues that need to be resolved, not least of which is state aids. Thus in the short term there may need to be interim arrangements in place to ensure the existing two abattoir facilities can continue to operate.

Some specific actions suggested include:-

- Review charges and increase where feasible and consider simplification
- Increase throughput by more promotion of services and benefits and continue to build on SLMG's work to encourage younger producers to get involved in finishing lambs through education (lamb grading courses, etc) and use of incentives (sponsored carcass competitions and prime stock shows).
- Improve communication with members through adverts in paper and meetings at key points in the year e.g. just prior to the main auction season in August and again in the Spring
- Upgrade Laxfirth for further sheep processing if Blydoit unable to proceed.
- Invest in a cattle/pig line at Laxfirth or Staneyhill if unable to proceed with Blydoit
- Investigate ways of making more use of staff resources and reducing hours
- Investigate different transport options for getting carcasses to the different markets.

## 7.3 Marts

Local producers have traditionally had three basic routes to the market:-

- Shetland Auction mart
- Sell to a dealer directly from the croft
- Ship animals to Aberdeen for sale through Thainstone mart

This degree of choice is seen to be very important for local producers given the range of different circumstances and scales of operation. If the mart was to drop out of the system it could have serious consequences for a lot of the smaller producers who would find it more difficult to move their stock. In addition to this the local mart provides crofters and farmers the opportunity to source replacement breeding stock from a range of producers on show and with the peace of mind knowing they benefit from the same animal health status as all Shetland stock. It is therefore considered essential by the industry that the local auction mart is maintained.

In the short term action needs to be considered to address some weaknesses and issues in order to:-

- Reduce overheads through physical improvements to pens and flow of animals in and out of the ring and thus reduce labour requirement and costs
- Increase throughput through improving the booking and management system and attracting more buyers, and promoting to local producers
- Reduce charges on a selective basis e.g. for native Shetland lamb to encourage throughput e.g. 3.5% as per Orkney
- Seek out other income streams through upgrading the building and office space and cafe, landscaping and undertaking more sales of furniture or cars etc
- Selling some stock in pens to speed up sales process

The sales calendar has already been rationalised and thus there may not be much more scope to reduce sales further.

In the longer term there is a need to investigate some of the wider options such as a wholly owned and run mart complex through:-

- Negotiating a deal with SLAP to buy the premises and land with appropriate funding
- Investigating more fully the electronic options to attract more buyers. Discussions have been held with Auxcis the company that installed the electronic seafish auction in Lerwick and who are currently working with A&N at Thainstone to develop their electronic capabilities. There are several options that range from a PC link with webcam to a buyer in the ring who bids on behalf of the remote buyer to the full online bidding with an electronic clock. It may be possible to get a secure link from Thainstone and have buyer

bidding on the Lerwick mart. If electronic tagging becomes a reality then the era of an electronic auction could move closer.

At this stage the possibility of SLMG or another local operator being able to run the marts is considered remote therefore it is advised to continue the joint operation with A&N.

## **7.4 Sales, Marketing and Product Development**

The sales, marketing and product development side of the work of SLMG has been one where some progress has been made but it has met with some criticism, mainly because it is being carried out by the same body as is running the abattoir and marts. As a result it is suggested that this could be carried out by a separate body to increase transparency and reduce the scope for criticism. A new Coop or CIC could be created to undertake this work and involve a partnership between the producers and the butchers. However as already mentioned above it is suggested this stays within SLMG as a separate cost centre at least in the short term.

Some immediate action required includes:-

- Action to protect the Intellectual Assets e.g. trademark and to maximise the benefits of other intelligence of the markets and customer lists.
- Produce an updated marketing strategy based on USPs (unique selling points)
- Build on the Brand strategy
- Identify someone to be responsible for managing orders and the sales process (new manager)

## **7.5 SLMG General**

Action proposed includes:-

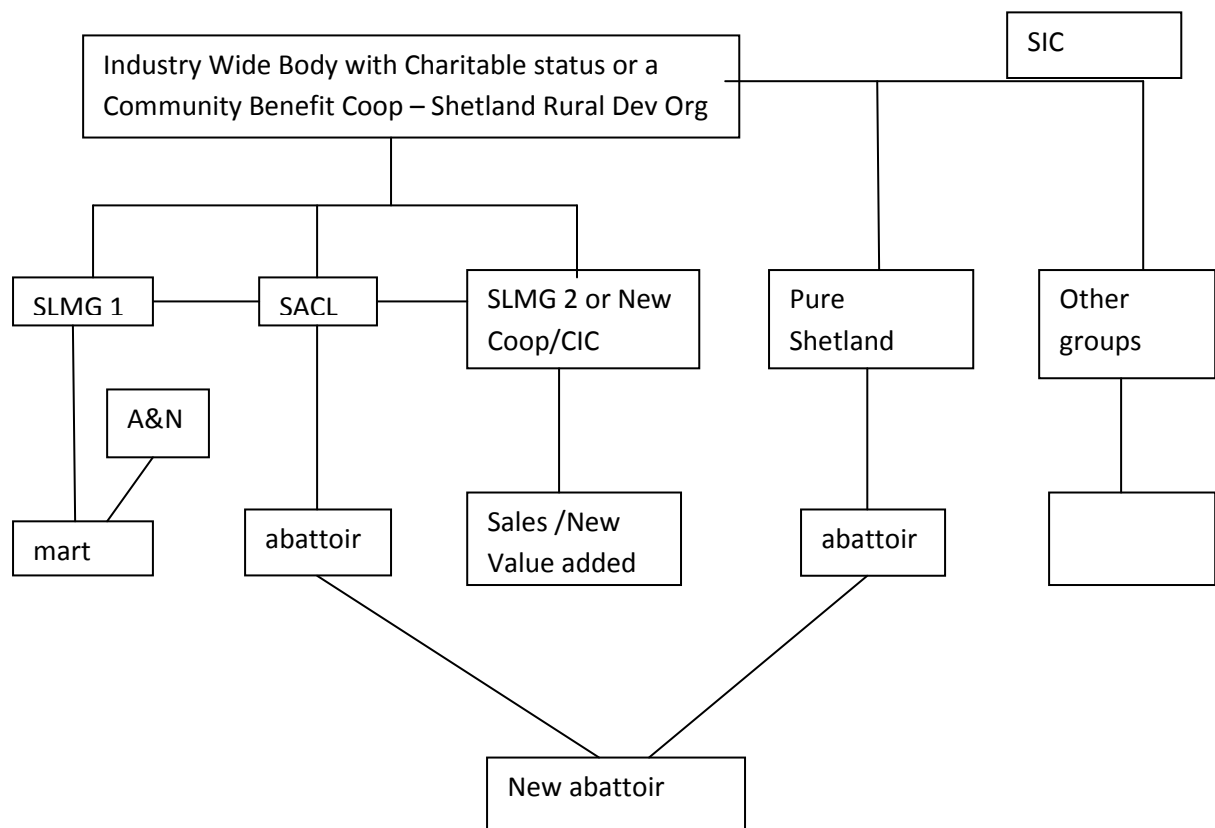
- Promote membership benefits and develop a wider range of indirect benefits for members e.g. explore a business ring
- Revise membership rates
- Increase membership to over 300
- Appoint two more directors to meet full compliment as per constitution.
- Appoint new work/sales manager
- Directors take on more specific responsibilities
- Investigate changing status of SLMG
- Continue to employ the staff and contract time to each of the components

## 7.6 Organisational Changes

A number of changes are suggested that include:-

- SLMG limiting its activities to running the mart and acquiring the assets
- SACL to run the Laxfirth abattoir or move to Blydoit if permission granted
- Pure Shetland Lamb to be invited to participate in talks about the new abattoir facility
- Work towards creating a new Coop or CIC to seek new markets and produce value added products. It could be a subsidiary of SLMG in partnership with butchers, but remain within SLMG in the short term
- Create an umbrella organisation to coordinate activities and invite other agricultural groupings to participate
- Each body to share common admin resource and pay for usage

It would be important that there is some coordination of activities between these bodies to avoid duplication and ensure everyone is pulling in the same direction. Therefore it is suggested that an industry wide body is set up as a not for profit body that could have a range of responsibilities such as research (e.g. carbon neutral lamb potential), product development, marketing, lobbying, training and running workshops.. The trustees or directors of this body should come from the bodies listed above plus other independent parties.



The disaggregation of SLMG should have several advantages such as:-

- It will provide more focused action on the different activities
- It will increase transparency and reduce conflicts of interest
- It will open up the scope for more public funding for each operation

Close cooperation and joined up action will still be needed to ensure the industry benefits overall. This makes a clear role for the umbrella body. It will also be necessary to share staff resources with costs clearly allocated to each body. This body should be set up as soon as possible so that the whole plan can move ahead. It is suggested that a new marketing/product development person (dedicated to service the whole industry) is employed at this level because of its non commercial nature thus leaving SLMG/SACL to get on with the sales and running the marts and abattoir.

There needs to be some debate about the best legal framework for this community interest umbrella body because it depends on how wide its remit becomes. Coming from the perspective of the three business strands it needs to have a coordinating role and undertake non commercial activities such as R&D, marketing and acting as a sounding board for the industry. It could also hold the physical infrastructure assets such as the abattoir and mart, though there is also a case for them to be held with those directly responsible for running them. It could be arranged such that if any operator failed then the asset could revert to the community interest body. Coming from the wider community perspective this body could include representatives of the wider community and others with an interest in the rural economy and community such as Community Councils. A trade body role has also been mentioned and could be developed. Agriculture has several producers organisations such as the Crofting Foundation and NFU but no one body represents the whole sector. The fishing sector has two main bodies the SFPO (which has white fish and pelagic sections) and the SFA that takes a wider perspective and gets involved in political lobbying. The proposed umbrella organisation would have analogies with the SFA for fishermen.



## 7.7 Resources Required

The resources required over the next few years, as detailed below in Table 7.1, work from the assumption that no new abattoir is imminent. If a new abattoir was imminent, i.e. within 12-18 months, then there is potential that the short term capital funding required can be reduced.

**Table 7.1: Resources Required in the Short Term (next three years 2010-12)**

		Capital (with no new abattoir soon)	Revenue over 3 years
<b>Marts</b>	Physical improvements and refurbishment	£100,000	
	Annual deficit		£20,000
	<b>Total</b>	<b>£100,000</b>	<b>£20,000</b>
<b>Abattoir</b>	Upgrade for sheep at Laxfirth	£150,000	
	Upgrade for cattle at Laxfirth or Staneyhill	£450,000	
	Annual deficit		£30,000
	<b>Total</b>	<b>£600,000</b>	<b>£30,000</b>
<b>Sales and Marketing</b>			
	Sales/promotion person		£45,000
	Sales, Marketing and Research Budget. inc Bond cost		£100,000
	Annual deficit		£40,000
	<b>Total</b>		<b>£185,000</b>
<b>Total</b>		<b>£700,000</b>	<b>£235,000</b>

Sources: Goodman report 2008, Abattoir business plan for Blydoit ABA 2008

It should be noted that if a building was erected at Staneyhill for a cattle line it will be done in such a way to make it possible to convert to use for meat processing if a new abattoir was built.

The total resources required for the short term comes to £935,000 overall of which £700,000 is for capital and £235,000 is for revenue support over a three year period. Over this period the company expects to generate £1.1m in turnover. The sales and marketing person is projected to be part funded from the SRDP sources, with an application pending the results of this overall funding proposal.

In the longer term the cost of a new abattoir, possibly on a site at Staneyhill, needs to be considered. Various estimates have been made in earlier studies for a new facility and would need to be revisited. Also the mechanism for funding and operating will need to be worked through to be state aid compliant. Several options have been explored already, however the most feasible from the industry perspective is likely to be the one where 100% of the cost is borne by the public sector based on market failure and the facility is leased at a market rate to one or more operator. In other words it is considered as a piece of infrastructure like the new animal containers for transporting animals on the ferries.

**It is suggested** that a representative project or steering group is set up as soon as possible to start taking this project forward, so that it can happen sooner rather than later and minimise the need for short term finance.

## **7.8 Timetable for Implementation**

Action is needed urgently to secure the marts operation for the coming season. Plans need to be made very soon and A&N and the producers would need to know in June if SLMG and the marts will be operating, so that plans can be made. It is vital to the viability of the marts that producers have confidence that it will be operating otherwise it could have a negative impact on throughput during the peak season and undermine the operation.

**Table 7.2 Timetable for Implementation of Actions**

	2009				2010				2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Marts (SLMG)</b>																
refurbish and upgrade																
<b>Sales/products (SLMG)</b>																
new sales manager																
<b>Abattoir (SACL)</b>																
upgrade for sheep at Laxfirth																
new cattle/pig and processing line at Staneyhill																
set up New Abattoir steering group																
<b>Overall</b>																
set up new umbrella organisation																
transfer of assets to new organisation																
Decision on funding package																

## **8. Business Development Plan**

### **8.1 Strategy and Action Plan**

The strategy and actions required have been highlighted in the previous section and will not be repeated again here, however it is worth restating some of the main objectives for:-

#### **Marts**

- Undertake efficiency savings where possible
- Increase throughput by 15% over next 3 years (26,600 to 30,000)
- Improve prices and returns to producers
- Upgrade facility
- Diversify income streams
- Strengthen sustainability of the operation

#### **Abattoir**

- Increase sheep throughput by 18% over the next 3 years (5500 to 6500)
- Improve margins and viability so that can move to breaking even position

#### **Sales**

- Increase purchases and sales by 18% over the next 3 years

The option of creating a new cattle slaughter line is also being put forward which should ensure that the abattoir can generate profits and move into a more sustainable position.

### **8.2 Financial Projections**

Projections have been produced for the next three years for the activities undertaken by SLMG. Considerable work has had to be undertaken to reallocate income and expenditure among the three main areas of the marts, abattoir, and sales and marketing in order to identify more clearly the real costs and income for each element. This has also helped reveal the viability of the different components and more accurately calculate the real costs.

The summary income and expenditure figures are as follows:-

**Table 8.1: Summary Financial Projections 2009-2012**

	Jun - Dec 2009	2010	2011	2012
	£s	£s	£s	£s
<b>Marts</b>				
Income	£22,522	£57,276	£58,076	£58,976
Expenditure	£31,621	£49,609	£48,109	£48,109
Balance	-£9,099	£7,667	£9,967	£10,867
<b>Abattoir</b>				
Income	£52,525	£80,963	£88,249	£96,192
Expenditure	£53,236	£86,532	£88,993	£91,676
Balance	-£711	-£5,569	-£744	£4,516
<b>Sales</b>				
Income	£123,163	£219,945	£239,918	£258,612
Expenditure	£136,277	£228,928	£245,001	£262,674
Balance	-£13,114	-£8,983	-£5,083	-£4,062
<b>Overall</b>				
Income	£198,210	£358,184	£386,243	£413,780
Expenditure	£221,134	£365,069	£382,103	£402,459
Balance	-£22,924	-£6,885	£4,140	£11,321

The more detailed cashflow figures are included in appendix 4

It is clear from these figures that the marts can achieve a breakeven position with some efficiency savings and so long as the overheads are more accurately shared, while the abattoir will continue to make a loss until throughput exceeds 6,200 and costs reduced. However this is dependent on the sales arm developing a large enough margin on sales to pay the full slaughter charges. If this does not happen then the only way the abattoir could have a chance of breaking even if there was a service level agreement with the Council to encourage use of facility rather than killing on crofts and farmers.

Also worth noting is that the projections above do not include any cattle processing. If a cattle line was available the net impact on the operation would be to provide an additional surplus of £12,000 per annum assuming 150 cattle are processing each year. If the cattle line is constructed this would negate the need for any annual revenue funding for the Sales and Marketing division of the operation.

The cost of employing a sales manager has been included in the sales element. This has the effect of it making a loss until enough additional income and throughput has been achieved. It has been assumed in the projections that 50% of this Sales Manager role will be grant funded from external sources.

The projections provide an indicator of the revenue funding required for the different elements of the SLMG operation over the next three years which it is suggested are

split into three separate cost centres and split between two organisations at least in the short term. This should provide greater transparency and accountability.

### **8.3 Key Assumptions**

The main assumptions behind these figures are given below. It should be noted that none of the capital expenditure has been included at this stage and what is being presented is very much the implications of a continuation of the current situation with some relatively minor modifications and improvements.

#### **Marts**

Income: modest increase in throughput, commission to stay the same level

Expenditure: efficiency savings in labour

#### **Abattoir**

Income: modest increases in throughput from 5500 (in 2010) to 6500 sheep (in 2012) with no cattle. Slaughter service charges increased by 10%

Expenditure: rationalisation of costs

#### **Sales**

Income: Increase purchases and sales by 18% over the next 3 years

Expenditure: employ FT sales manager

#### **SLMG Overall**

Income: membership fees – modest increase for some categories. Note that this membership is equally apportioned between the Sales and Mart divisions.

### **8.4 Funding/State Aids/De Minimis**

It is understood that the two commercial bodies would each be eligible for de minimis funding. Since SACL will go under if SLMG cannot pay the rent and no other operator is found, the current revenue support to SLMG is effectively propping up SACL as well. The umbrella body could be considered differently if it is a body with charitable status or a Benefit Coop. It could seek different funding from the Council, HIE, Lottery, and SRDP.

## 9. Overall Conclusions

It is clear that, although there have been criticism raised against SLMG and it has got into financial difficulties, there have been a number of achievements and successes. SLMG started from a very low point and has more than **doubled throughput** at the abattoir and continually **increased its market share of animals** going through the marts in face of declining stock numbers, as well as **developing new markets** and the Shetland brand for sheep. In the process it has had a significant impact on the local economy through **generating around £4m of gross turnover and 11.5FTE jobs and over £1m of income.**

The evidence from the consultation and analysis undertaken suggests there is a need to undertake some disaggregation of the 3 elements of SLMG to provide more focused action, oversight and responsibility for each of the aspects, and to make the income and expenditure more explicit and attributable to the separate elements of the operation, but also to create an umbrella body to ensure coordination between the different elements and undertake wider marketing for the industry as a whole.

The SLMG accounts have been pulled apart and 3 separate cost centres identified which could be set up as separate entities, though in short term it is suggested 2 cost centres remain within SLMG and the abattoir moves to SACL. Three year projections have been made with some modest increase in throughput and fees to show that the mart can breakeven, the abattoir breaks even in Year 3 and the Sales and Marketing division shows shrinking deficits. The latter position could be turned around into positive surpluses if the cattle line and processing is progressed. In the intervening period some revenue funding is required in addition to the need for capital investment and has been identified funding as follows:-

	<b>Funding</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Total</b>
<b>Mart</b>	Capital		£100,000			£100,000
	Revenue	£20,000				£20,000
<b>Abattoir</b>	Capital	£225,000	£375,000			£600,000
	Revenue	£20,000	£10,000			£30,000
<b>Sales</b>	Capital					
	Sales Manager*	£7,500	£12,500	£12,500	£12,500	£45,000
	Revenue*	£15,000	£15,000	£5,000	£5,000	£40,000
	Sales, Marketing and Research Budget. inc Bond cost	£25,000	£25,000	£25,000	£25,000	£100,000

<b>Total</b>		£312,500	£537,500	£42,500	£42,500	£935,000
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\* The Sales person budget covers the salary of £25,000 per annum. The Sales revenue required reflects the fact that 50% of the Sales Manager salary will be grant funded. Please note that if a cattle line is constructed then the cash requirement would be reduced £12,000 per annum (assuming 150 cattle are processed).

SLMG has already taken action to try to turn the business around. These include:-

- Chasing bad debts
- Increasing charges at abattoir
- Clarifying abattoir charges
- Setting up a lamb register for bookings at abattoir
- Cutting overheads where possible
- Rationalising mart sales programme
- Pursuing new meat orders

SLMG is currently negotiating with an interested Belgian buyer which could result in an increased demand for around 4000 lambs over a 10 week period. If this happens it would improve the financial position of SLMG significantly. It is important to note that the projections do not account for this large order.

The Council has provided short term support amounting to £20,000 over the last few months which has enabled the business to continue to trade. If the business continues to work at reducing costs, increasing its margins, and increasing income/throughput, then it has a chance of breaking even overall after three years (see projections in appendix 4). However it is not likely to be sustainable unless there is some capital investment to upgrade facilities and introduce more efficiencies, increase income, and reduce risks. There will also be a backlog of debt to cover as well. Hence the need for the capital injection proposed above. It is important to avoid the mistake made in 2003 when SLMG was set up but was under capitalised.

The key risks for the operation have been identified and are addressed by the proposals put forward here. The main ones include:-

<b>Risks</b>	<b>Action to be taken</b>
Having all eggs in one basket	Disaggregate and isolate risky areas
Bad debts	Insurance cover and/or bond
Cash flow for sales	Seek commitment and some money up front from producers
Lack of capital	Funding package being sought



No Manager in place to take forward operations	Appoint Manager (SRDP funding application pending)
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The **Priorities for Action** during 2009 are:-

### **Marts**

- Ensure working capital is in place to get through 2009 Sales season
- Undertake essential refurbishment
- Undertake improvements to animal handling area and pens

### **Abattoir**

- Upgrade Laxfirth for sheep
- Establish cattle facility at Staneyhill
- Investigate economics of pig processing

### **Sales**

- Set up separate arm for developing meat sales and processing
- Employ sales person to drive forward new sales and manage existing operations
- Ensure that a sufficient Sales and Marketing budget is in place to ensure that sales person is suitably resourced, including money for contracting external agents/representative to oversee.
- Ensure sufficient bond (or similar facility) is in place to cover large shipments.

### **Umbrella Body**

- Set up this new development organisation and investigate lottery funding

### **Overall**

- Agree a funding package for the whole operation as well as the three different components. It is particularly important to ensure the future of the mart is seen to be secure before the end of June so that producers have confidence that the autumn sales will be proceeding. The need for a fieldsman for the SLMG operation must also be investigated.

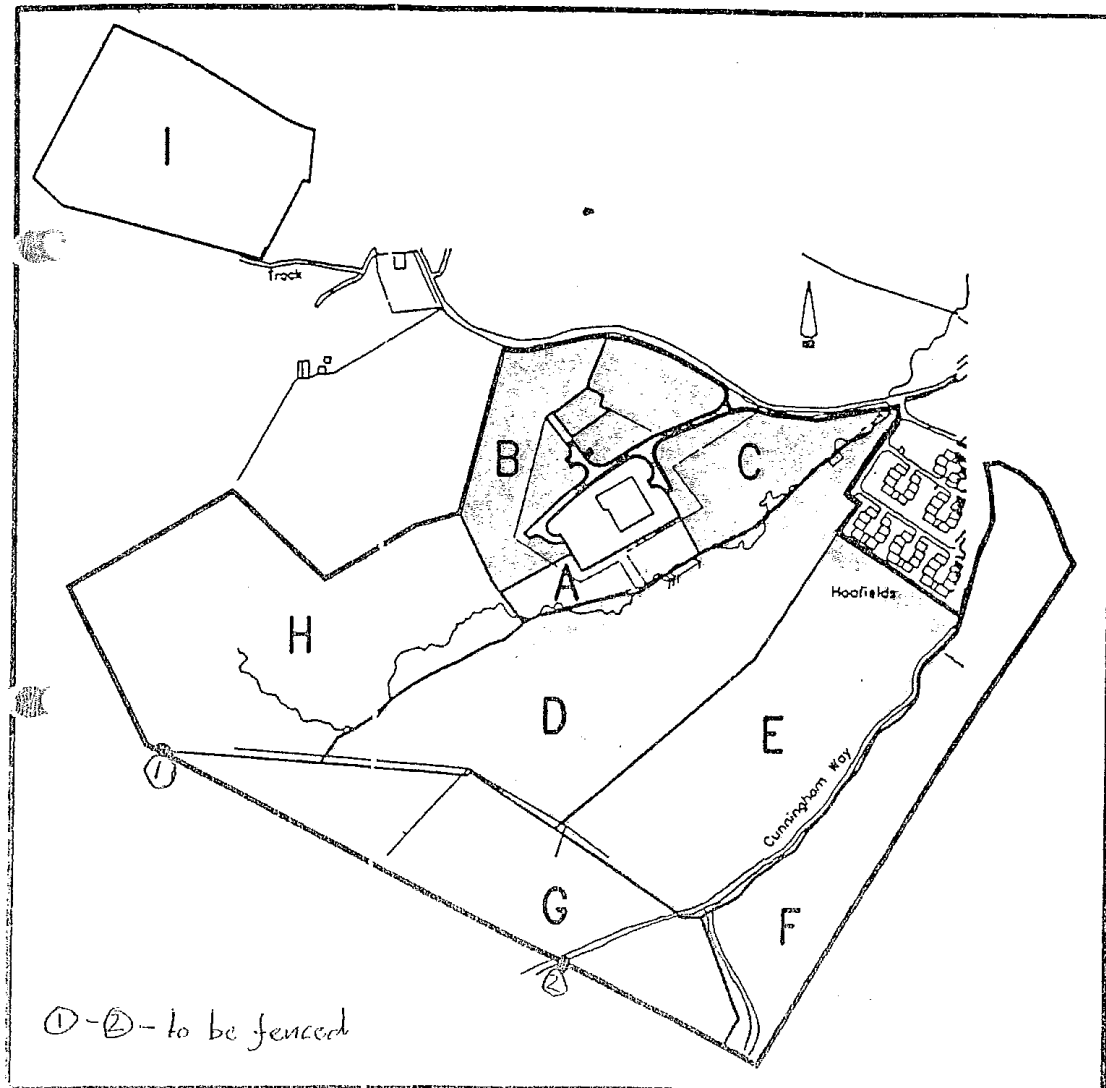
While all these steps are vital to help move the industry into a more sustainable position, the need to investigate improved abattoir provision in Shetland should not be forgotten, and it is **suggested** that a steering group is set up to take that forward as soon as possible.

## Appendix 1: Schedule of Charges at the Abattoir

### Laxfirth Abattoir Price List 2009

	Slaughter/Collect Members	£8.45
	Slaughter/Collect Non Members	£10.25
	Slaughter/Delivered Members	£11.00
	Slaughter/Delivered Non Members (5 mile radius of Laxfirth)	£14.10
	Organic Surcharge	£1.50
A	Clipping Charge	£2.50
B	Splitting Charge	£2.50
C	Crofters Cut (primal cut)	£4.50
D	B & R Shoulder	£6.75
E	B & R Sh & Legs Split	£7.00
F	B & R Sh & Legs	£7.45
G	Whole Lamb B & R	£8.00
H	Butchers Special	£9.00
I	Box, Bag, Stockinette, Weighed, etc	Various
J	Whole Sheep Minced	£8.00
K	Delivery starts at:	£5.50

## Appendix 2: Plans of Marts Site and Lairage

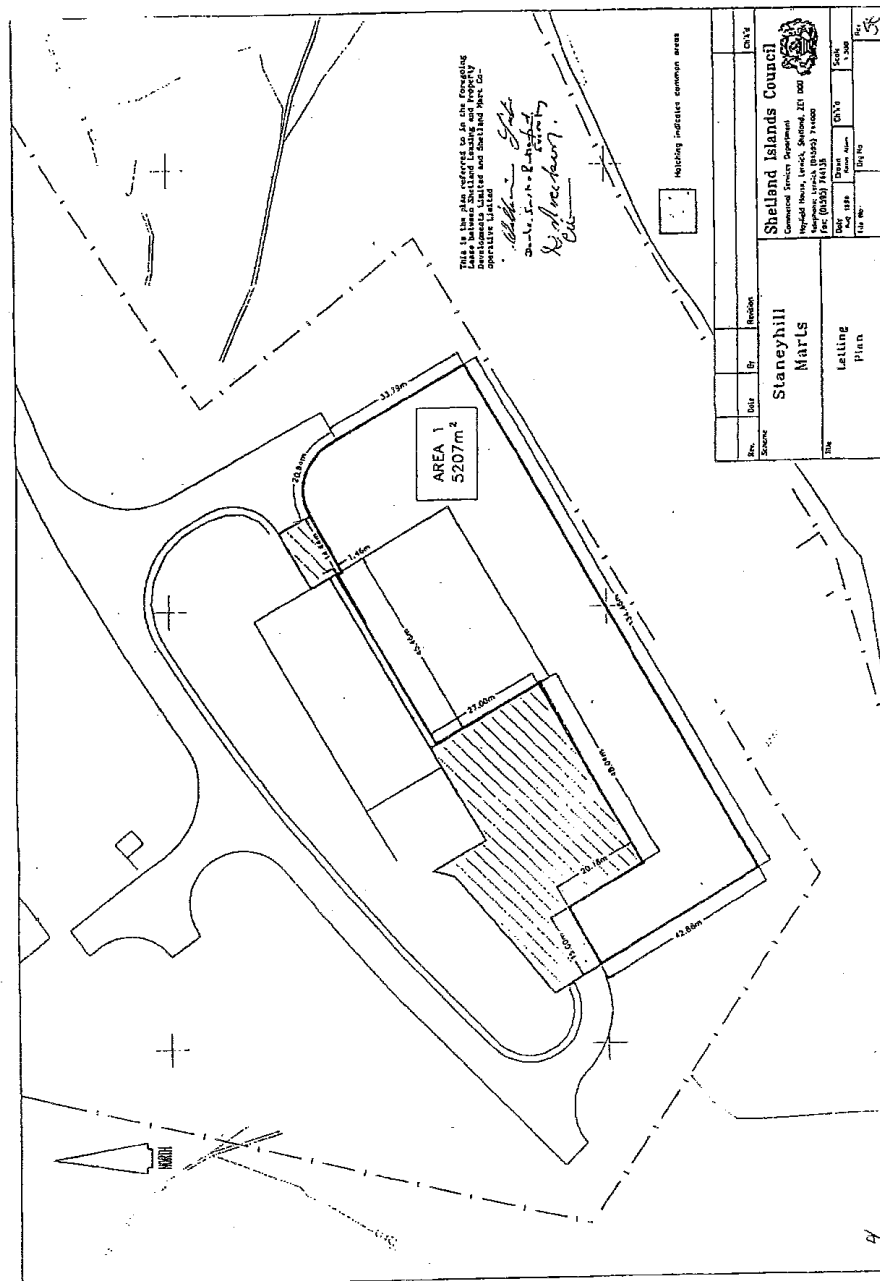


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*A. B. Associates Ltd*

## **Appendix 3: Existing Accounts**

## Appendix 4: Financial Projections

### Marts 2009

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
<b>Cash In</b>													
Rental of Offices	From January to the end of May				£6,211	£2,294	£265	£265	£2,294	£265	£265	£2,294	£14,153
Rental of Storage Space	From January to the end of May					£100	£100	£100	£100	£100	£700	£1,200	£2,400
Membership	From January to the end of May				£5,451	£0	£0	£0	£0	£0	£0	£0	£5,451
Sales Expenses Recouped	From January to the end of May					£0	£0	£0	£0	£0	£0	£0	£0
Livestock Commission	From January to the end of May					£0	£0	£0	£0	£0	£0	£0	£0
Sale of Water facilities	From January to the end of May				£3,668	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£10,948
Income from Sales and Marketing Division	From January to the end of May					£700	£700	£700	£700	£700	£700	£700	£4,900
<b>Total Cash In</b>	From January to the end of May				<b>£15,330</b>	<b>£4,134</b>	<b>£2,105</b>	<b>£2,105</b>	<b>£4,134</b>	<b>£2,105</b>	<b>£2,705</b>	<b>£5,234</b>	<b>£37,852</b>
<b>Cash Out</b>													
Farm Assurance	From January to the end of May				£62	£0	£0	£600	£0	£0	£0	£0	£662
Vet Fees	From January to the end of May					£0	£0	£0	£350	£0	£350	£0	£700
Aberdeen and Northern Fees	From January to the end of May				£1,681	£0	£0	£0	£0	£0	£0	£0	£1,681
Waste Disposal	From January to the end of May					£250	£250	£400	£400	£400	£250	£250	£2,200
Gross Wages - Office Staff	From January to the end of May				£8,250	£1,400	£1,500	£2,000	£2,500	£2,800	£2,000	£1,600	£22,050
Insurance	From January to the end of May					£367	£367	£367	£367	£367	£367	£367	£2,569
Rent	Rent Rates and Insurance Combined pre June				£6,958	£0	£0	£0	£0	£0	£0	£0	£6,958
Rates	From January to the end of May					£326	£0	£0	£0	£0	£0	£0	£326
Light and Heat	From January to the end of May				£1,868	£333	£333	£333	£333	£333	£333	£333	£4,202
Water	From January to the end of May					£0	£0	£0	£0	£1,200	£0	£0	£1,200
Repairs, Servicing and Cleaning	From January to the end of May				£380	£100	£400	£100	£100	£100	£400	£100	£1,680
Travel	From January to the end of May				£176	£0	£0	£800	£0	£0	£0	£0	£976
Advertising	From January to the end of May				£370	£0	£100	£50	£50	£50	£0	£0	£620
Packaging, Postage and Carriage	From January to the end of May				£555	£100	£20	£20	£10	£30	£20	£20	£775
Telephone	From January to the end of May				£622	£50	£0	£0	£100	£0	£0	£75	£847
Printing and office equipment	From January to the end of May					£0	£0	£350	£0	£0	£0	£0	£350
Office Stationery	From January to the end of May				£229	£0	£0	£100	£100	£100	£100	£0	£629
Accountancy and Legal/Professional Ser	From January to the end of May				£1,220	£125	£0	£0	£250	£0	£0	£125	£1,720
Repairs and Renewals	From January to the end of May				£638	£0	£0	£0	£0	£0	£1,400	£0	£2,038
Premises Expenses	From January to the end of May				£177	£1,200	£0	£0	£0	£0	£0	£400	£1,777
Vehicle Expenses	From January to the end of May				£104	£0	£250	£0	£0	£0	£0	£0	£354
Loan and HP Interest	From January to the end of May				£427	£85	£85	£85	£85	£85	£85	£85	£1,022
<b>Total Cash Out</b>	From January to the end of May				<b>£23,717</b>	<b>£4,337</b>	<b>£3,306</b>	<b>£5,205</b>	<b>£4,645</b>	<b>£5,465</b>	<b>£5,306</b>	<b>£3,356</b>	<b>£55,336</b>
Cash In - Cash Out	From January to the end of May				-£8,387	-£203	-£1,201	-£3,100	-£511	-£3,360	-£2,601	£1,878	<b>-£17,483</b>
Opening Cash Balance	From January to the end of May				£0	-£8,387	-£8,590	-£9,791	-£12,891	-£13,402	-£16,763	-£19,364	
Closing Cash Balance	From January to the end of May				<b>-£8,387</b>	<b>-£8,590</b>	<b>-£9,791</b>	<b>-£12,891</b>	<b>-£13,402</b>	<b>-£16,763</b>	<b>-£19,364</b>	<b>-£17,486</b>	

**Marts 2010**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
<b><u>Cash In</u></b>													
Rental of Offices	£265	£265	£2,294	£265	£265	£2,294	£265	£265	£2,294	£265	£265	£2,294	£11,296
Rental of Storage Space	£1,400	£1,200	£700	£100	£100	£100	£100	£100	£100	£100	£700	£1,200	£5,900
Membership	£2,750	£2,750	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£5,500
Sales Expenses Recouped	£8,000	£0	£9,000	£0	£0	£0	£0	£0	£0	£0	£0	£0	£17,000
Livestock Commission	£0	£0	£1,500	£0	£0	£0	£0	£0	£0	£0	£0	£0	£1,500
Sale of Water facilities	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£12,480
Income from Sales and Marketing Division	£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£3,600
<b>Total Cash In</b>	<b>£13,755</b>	<b>£5,555</b>	<b>£14,834</b>	<b>£1,705</b>	<b>£1,705</b>	<b>£3,734</b>	<b>£1,705</b>	<b>£1,705</b>	<b>£3,734</b>	<b>£1,705</b>	<b>£2,305</b>	<b>£4,834</b>	<b>£57,276</b>
<b><u>Cash Out</u></b>													
Farm Assurance	£0	£0	£0	£600	£0	£0	£0	£0	£0	£0	£0	£0	£600
Vet Fees	£0	£0	£0	£50	£0	£0	£0	£0	£350	£0	£350	£0	£750
Aberdeen and Northern Fees	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Waste Disposal	£150	£250	£250	£300	£250	£250	£250	£400	£400	£400	£250	£250	£3,400
Gross Wages - Office Staff	£1,200	£1,400	£1,700	£2,100	£1,300	£1,400	£1,500	£2,000	£2,500	£2,800	£2,000	£1,600	£21,500
Insurance	£367	£367	£367	£367	£367	£367	£367	£367	£367	£367	£367	£367	£4,404
Rent	£575	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£575
Rates	£0	£0	£0	£334	£0	£326	£0	£0	£0	£0	£0	£0	£660
Light and Heat	£333	£333	£333	£333	£333	£333	£333	£333	£333	£333	£333	£333	£4,000
Water	£0	£0	£0	£1,200	£0	£0	£0	£0	£0	£1,200	£0	£0	£2,400
Repairs, Servicing and Cleaning	£100	£100	£300	£100	£100	£100	£400	£100	£100	£100	£400	£100	£2,000
Travel	£0	£0	£0	£0	£0	£0	£0	£800	£0	£0	£0	£0	£800
Advertising	£0	£0	£0	£50	£0	£0	£100	£50	£50	£50	£0	£0	£300
Packaging, Postage and Carriage	£20	£20	£20	£10	£10	£100	£20	£20	£10	£30	£20	£20	£300
Telephone	£0	£0	£50	£0	£0	£50	£0	£0	£100	£0	£0	£75	£275
Printing and office equipment	£0	£0	£200	£50	£0	£0	£0	£350	£0	£0	£0	£0	£600
Office Stationery	£0	£0	£0	£50	£0	£0	£0	£100	£100	£100	£100	£0	£450
Accountancy and Legal/Professional Ser	£0	£0	£375	£0	£0	£125	£0	£0	£250	£0	£0	£125	£875
Repairs and Renewals	£0	£0	£0	£600	£0	£0	£0	£0	£0	£0	£1,400	£0	£2,000
Premises Expenses	£0	£0	£0	£600	£0	£1,200	£0	£0	£0	£0	£0	£400	£2,200
Vehicle Expenses	£0	£0	£250	£0	£0	£0	£250	£0	£0	£0	£0	£0	£500
Loan and HP Interest	£85	£85	£85	£85	£85	£85	£85	£85	£85	£85	£85	£85	£1,020
<b>Total Cash Out</b>	<b>£2,831</b>	<b>£2,556</b>	<b>£3,931</b>	<b>£6,829</b>	<b>£2,446</b>	<b>£4,337</b>	<b>£3,306</b>	<b>£4,605</b>	<b>£4,645</b>	<b>£5,465</b>	<b>£5,306</b>	<b>£3,356</b>	<b>£49,609</b>
Cash In - Cash Out	£10,924	£2,999	£10,903	-£5,124	-£741	-£603	-£1,601	-£2,900	-£911	-£3,760	-£3,001	£1,478	<b>£7,667</b>
Opening Cash Balance	-£17,486	-£6,562	-£3,563	£7,340	£2,216	£1,475	£872	-£728	-£3,629	-£4,540	-£8,300	-£11,301	
Closing Cash Balance	<b>-£6,562</b>	<b>-£3,563</b>	<b>£7,340</b>	<b>£2,216</b>	<b>£1,475</b>	<b>£872</b>	<b>-£728</b>	<b>-£3,629</b>	<b>-£4,540</b>	<b>-£8,300</b>	<b>-£11,301</b>	<b>-£9,823</b>	



**Marts 2011**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
<b>Cash In</b>													
Rental of Offices	£265	£265	£2,294	£265	£265	£2,294	£265	£265	£2,294	£265	£265	£2,294	£11,296
Rental of Storage Space	£1,400	£1,200	£700	£100	£100	£100	£100	£100	£100	£100	£700	£1,200	£5,900
Membership	£2,900	£2,900	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£5,800
Sales Expenses Recouped	£8,000	£0	£9,000	£0	£0	£0	£0	£0	£0	£0	£0	£0	£17,000
Livestock Commission	£0	£0	£2,000	£0	£0	£0	£0	£0	£0	£0	£0	£0	£2,000
Sale of Water facilities	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£12,480
Income from Sales and Marketing Division	£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£3,600
<b>Total Cash In</b>	<b>£13,905</b>	<b>£5,705</b>	<b>£15,334</b>	<b>£1,705</b>	<b>£1,705</b>	<b>£3,734</b>	<b>£1,705</b>	<b>£1,705</b>	<b>£3,734</b>	<b>£1,705</b>	<b>£2,305</b>	<b>£4,834</b>	<b>£58,076</b>

**Cash Out**

Farm Assurance	£0	£0	£0	£600	£0	£0	£0	£0	£0	£0	£0	£0	£600
Vet Fees	£0	£0	£0	£50	£0	£0	£0	£0	£350	£0	£350	£0	£750
Aberdeen and Northern Fees	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Waste Disposal	£150	£250	£250	£300	£250	£250	£250	£400	£400	£400	£250	£250	£3,400
Gross Wages - Office Staff	£1,200	£1,400	£1,700	£2,100	£1,300	£1,400	£1,500	£2,000	£2,500	£2,800	£2,000	£1,600	£21,500
Insurance	£367	£367	£367	£367	£367	£367	£367	£367	£367	£367	£367	£367	£4,404
Rent	£575	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£575
Rates	£0	£0	£0	£334	£0	£326	£0	£0	£0	£0	£0	£0	£660
Light and Heat	£333	£333	£333	£333	£333	£333	£333	£333	£333	£333	£333	£333	£4,000
Water	£0	£0	£0	£1,200	£0	£0	£0	£0	£0	£1,200	£0	£0	£2,400
Repairs, Servicing and Cleaning	£100	£100	£300	£100	£100	£100	£400	£100	£100	£100	£400	£100	£2,000
Travel	£0	£0	£0	£0	£0	£0	£0	£800	£0	£0	£0	£0	£800
Advertising	£0	£0	£0	£50	£0	£0	£100	£50	£50	£50	£0	£0	£300
Packaging, Postage and Carriage	£20	£20	£20	£10	£10	£100	£20	£20	£10	£30	£20	£20	£300
Telephone	£0	£0	£50	£0	£0	£50	£0	£0	£100	£0	£0	£75	£275
Printing and office equipment	£0	£0	£200	£50	£0	£0	£0	£350	£0	£0	£0	£0	£600
Office Stationery	£0	£0	£0	£50	£0	£0	£0	£100	£100	£100	£100	£0	£450
Accountancy and Legal/Professional Ser	£0	£0	£375	£0	£0	£125	£0	£0	£250	£0	£0	£125	£875
Repairs and Renewals	£0	£0	£0	£600	£0	£0	£0	£0	£0	£0	£700	£0	£1,300
Premises Expenses	£0	£0	£0	£600	£0	£400	£0	£0	£0	£0	£0	£400	£1,400
Vehicle Expenses	£0	£0	£250	£0	£0	£0	£250	£0	£0	£0	£0	£0	£500
Loan and HP Interest	£85	£85	£85	£85	£85	£85	£85	£85	£85	£85	£85	£85	£1,020
<b>Total Cash Out</b>	<b>£2,831</b>	<b>£2,556</b>	<b>£3,931</b>	<b>£6,829</b>	<b>£2,446</b>	<b>£3,537</b>	<b>£3,306</b>	<b>£4,605</b>	<b>£4,645</b>	<b>£5,465</b>	<b>£4,606</b>	<b>£3,356</b>	<b>£48,109</b>

Cash In - Cash Out	£11,074	£3,149	£11,403	-£5,124	-£741	£197	-£1,601	-£2,900	-£911	-£3,760	-£2,301	£1,478	<b>£9,967</b>
Opening Cash Balance	-£9,823	£1,251	£4,400	£15,803	£10,678	£9,938	£10,135	£8,534	£5,634	£4,722	£962	-£1,339	
Closing Cash Balance	<b>£1,251</b>	<b>£4,400</b>	<b>£15,803</b>	<b>£10,678</b>	<b>£9,938</b>	<b>£10,135</b>	<b>£8,534</b>	<b>£5,634</b>	<b>£4,722</b>	<b>£962</b>	<b>-£1,339</b>	<b>£139</b>	

**Marts 2012**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
<b><u>Cash In</u></b>													
Rental of Offices	£265	£265	£2,294	£265	£265	£2,294	£265	£265	£2,294	£265	£265	£2,294	£11,296
Rental of Storage Space	£1,400	£1,200	£700	£100	£100	£100	£100	£100	£100	£100	£700	£1,200	£5,900
Membership	£3,100	£3,100	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£6,200
Sales Expenses Recouped	£8,000	£0	£9,000	£0	£0	£0	£0	£0	£0	£0	£0	£0	£17,000
Livestock Commission	£0	£0	£2,500	£0	£0	£0	£0	£0	£0	£0	£0	£0	£2,500
Sale of Water facilities	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£1,040	£12,480
Income from Sales and Marketing Division	£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£3,600
<b>Total Cash In</b>	<b>£14,105</b>	<b>£5,905</b>	<b>£15,834</b>	<b>£1,705</b>	<b>£1,705</b>	<b>£3,734</b>	<b>£1,705</b>	<b>£1,705</b>	<b>£3,734</b>	<b>£1,705</b>	<b>£2,305</b>	<b>£4,834</b>	<b>£58,976</b>
<b><u>Cash Out</u></b>													
Farm Assurance	£0	£0	£0	£600	£0	£0	£0	£0	£0	£0	£0	£0	£600
Vet Fees	£0	£0	£0	£50	£0	£0	£0	£0	£350	£0	£350	£0	£750
Aberdeen and Northern Fees	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Waste Disposal	£150	£250	£250	£300	£250	£250	£250	£400	£400	£400	£250	£250	£3,400
Gross Wages - Office Staff	£1,200	£1,400	£1,700	£2,100	£1,300	£1,400	£1,500	£2,000	£2,500	£2,800	£2,000	£1,600	£21,500
Insurance	£367	£367	£367	£367	£367	£367	£367	£367	£367	£367	£367	£367	£4,404
Rent	£575	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£575
Rates	£0	£0	£0	£334	£0	£326	£0	£0	£0	£0	£0	£0	£660
Light and Heat	£333	£333	£333	£333	£333	£333	£333	£333	£333	£333	£333	£333	£4,000
Water	£0	£0	£0	£1,200	£0	£0	£0	£0	£0	£1,200	£0	£0	£2,400
Repairs, Servicing and Cleaning	£100	£100	£300	£100	£100	£100	£400	£100	£100	£100	£400	£100	£2,000
Travel	£0	£0	£0	£0	£0	£0	£0	£800	£0	£0	£0	£0	£800
Advertising	£0	£0	£0	£50	£0	£0	£100	£50	£50	£50	£0	£0	£300
Packaging, Postage and Carriage	£20	£20	£20	£10	£10	£100	£20	£20	£10	£30	£20	£20	£300
Telephone	£0	£0	£50	£0	£0	£50	£0	£0	£100	£0	£0	£75	£275
Printing and office equipment	£0	£0	£200	£50	£0	£0	£0	£350	£0	£0	£0	£0	£600
Office Stationery	£0	£0	£0	£50	£0	£0	£0	£100	£100	£100	£100	£0	£450
Accountancy and Legal/Professional Ser	£0	£0	£375	£0	£0	£125	£0	£0	£250	£0	£0	£125	£875
Repairs and Renewals	£0	£0	£0	£600	£0	£0	£0	£0	£0	£0	£700	£0	£1,300
Premises Expenses	£0	£0	£0	£600	£0	£400	£0	£0	£0	£0	£0	£400	£1,400
Vehicle Expenses	£0	£0	£250	£0	£0	£0	£250	£0	£0	£0	£0	£0	£500
Loan and HP Interest	£85	£85	£85	£85	£85	£85	£85	£85	£85	£85	£85	£85	£1,020
<b>Total Cash Out</b>	<b>£2,831</b>	<b>£2,556</b>	<b>£3,931</b>	<b>£6,829</b>	<b>£2,446</b>	<b>£3,537</b>	<b>£3,306</b>	<b>£4,605</b>	<b>£4,645</b>	<b>£5,465</b>	<b>£4,606</b>	<b>£3,356</b>	<b>£48,109</b>
Cash In - Cash Out	£11,274	£3,349	£11,903	£-5,124	£-741	£197	£-1,601	£-2,900	£-911	£-3,760	£-2,301	£1,478	<b>£10,867</b>
Opening Cash Balance	£139	£11,413	£14,762	£26,665	£21,541	£20,800	£20,997	£19,396	£16,496	£15,585	£11,824	£9,523	
Closing Cash Balance	<b>£11,413</b>	<b>£14,762</b>	<b>£26,665</b>	<b>£21,541</b>	<b>£20,800</b>	<b>£20,997</b>	<b>£19,396</b>	<b>£16,496</b>	<b>£15,585</b>	<b>£11,824</b>	<b>£9,523</b>	<b>£11,001</b>	

**Abattoir 2009**

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
<b>Cash In</b>	<b>Charge</b>													
Slaughter & Collect	£9.35	From January to the end of May				£1,257	£140	£140	£281	£2,571	£5,143	£4,441	£1,822	£15,795
Slaughter & Deliver	£12.50	From January to the end of May				£9,979	£1,979	£2,191	£2,615	£3,393	£8,483	£5,231	£4,524	£38,395
Additional Services	£2.50	From January to the end of May				£1,643	£433	£476	£598	£1,366	£3,072	£2,234	£1,392	£11,213
<b>Total Cash In</b>		From January to the end of May				<b>£12,878</b>	<b>£2,553</b>	<b>£2,807</b>	<b>£3,494</b>	<b>£7,330</b>	<b>£16,697</b>	<b>£11,906</b>	<b>£7,738</b>	<b>£65,403</b>
<b>Cash Out</b>														
Vet Services		From January to the end of May				£157	£0	£200	£0	£0	£200	£0	£200	£757
Delivery		From January to the end of May				£28	£200	£0	£0	£200	£300	£300	£250	£1,278
Levies on throughput		From January to the end of May				£717	£250	£250	£250	£250	£250	£250	£0	£2,217
Ammunition		From January to the end of May				£109	£0	£0	£125	£0	£0	£125	£600	£959
Waste Disposal		From January to the end of May				£1,633	£173	£190	£239	£546	£1,229	£893	£557	£5,461
Gross Wages - Abattoir Manager		From January to the end of May				£7,382	£1,700	£1,700	£1,700	£1,700	£1,700	£1,700	£700	£18,282
Gross Wages - Office Staff		From January to the end of May				£2,037	£300	£300	£400	£500	£700	£700	£600	£5,537
Gross Wages - Slaughtermen/Butcher		From January to the end of May				£2,428	£494	£542	£682	£1,557	£3,502	£2,546	£1,587	£13,339
Insurance		From January to the end of May					£200	£200	£200	£200	£200	£200	£200	£1,400
Rent		From January to the end of May				£1,000	£200	£200	£200	£200	£200	£200	£200	£2,400
Rates		From January to the end of May					£200	£200	£200	£200	£200	£200	£200	£1,400
Electricity		From January to the end of May				£5,118	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£12,118
Fuel and Oil		From January to the end of May				£505	£145	£145	£195	£250	£250	£250	£200	£1,940
Repairs, Servicing and Cleaning		From January to the end of May				£4	£100	£100	£100	£200	£200	£200	£0	£904
Licenses		From January to the end of May					£0	£0	£0	£0	£0	£0	£44	£44
Vehicle Insurance		From January to the end of May				£223	£44	£44	£44	£44	£44	£44	£200	£687
Misc. Motor Expenses		From January to the end of May				£272	£200	£0	£0	£0	£200	£0	£0	£672
Advertising		From January to the end of May					£0	£0	£100	£0	£0	£0	£0	£100
Affiliation/Membership Fees		From January to the end of May					£0	£0	£0	£350	£0	£0	£150	£500
Telephone		From January to the end of May				£100	£150	£0	£0	£150	£0	£0	£12	£412
Office Stationery		From January to the end of May					£12	£12	£12	£12	£12	£12	£125	£197
Accountancy and Legal/Professional Ser		From January to the end of May				£220	£125	£0	£0	£250	£0	£0	£0	£595
Repairs and Renewals		From January to the end of May					£0	£0	£0	£500	£0	£0	£0	£500
Premises Expenses		From January to the end of May				£412	£50	£0	£0	£0	£150	£0	£60	£672
Lab Services/Pest Control		From January to the end of May				£330	£30	£40	£60	£60	£60	£60	£300	£940
HP and Loan Interest		From January to the end of May				£402	£300	£300	£300	£300	£300	£300	£0	£2,202
Clothing		From January to the end of May					£0	£0	£50	£0	£0	£0	£0	£50
Training		From January to the end of May					£0	£0	£750	£0	£0	£0	£0	£750
<b>Total Cash Out</b>		From January to the end of May				<b>£23,076</b>	<b>£5,873</b>	<b>£5,424</b>	<b>£6,607</b>	<b>£8,470</b>	<b>£10,696</b>	<b>£8,981</b>	<b>£7,185</b>	<b>£76,311</b>
Cash In - Cash Out		From January to the end of May				-£10,197	-£3,321	-£2,616	-£3,113	-£1,139	£6,000	£2,925	£553	<b>-£10,908</b>
Opening Cash Balance							-£10,197	-£13,518	-£16,134	-£19,247	-£20,387	-£14,386	-£11,461	
Closing Cash Balance						<b>-£10,197</b>	<b>-£13,518</b>	<b>-£16,134</b>	<b>-£19,247</b>	<b>-£20,387</b>	<b>-£14,386</b>	<b>-£11,461</b>	<b>-£10,908</b>	

**Abattoir 2010**

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
<b><u>Cash In</u></b>	<b><u>Charge</u></b>													
Slaughter & Collect	£10.50	£158	£158	£158	£158	£315	£315	£315	£788	£1,995	£5,250	£4,725	£3,675	£18,008
Slaughter & Deliver	£13.00	£2,730	£2,730	£2,730	£2,275	£2,665	£2,795	£2,990	£3,380	£4,680	£10,140	£6,370	£5,720	£49,205
Additional Services	£2.50	£563	£563	£563	£475	£588	£613	£650	£838	£1,375	£3,200	£2,350	£1,975	£13,750
<b>Total Cash In</b>		<b>£3,450</b>	<b>£3,450</b>	<b>£3,450</b>	<b>£2,908</b>	<b>£3,568</b>	<b>£3,723</b>	<b>£3,955</b>	<b>£5,005</b>	<b>£8,050</b>	<b>£18,590</b>	<b>£13,445</b>	<b>£11,370</b>	<b>£80,963</b>
<b><u>Cash Out</u></b>														
Vet Services		£200	£0	£0	£200	£0	£0	£200	£0	£0	£200	£0	£200	£1,000
Delivery		£0	£0	£200	£0	£0	£200	£0	£0	£200	£300	£300	£250	£1,450
Levies on throughput		£212	£212	£212	£179	£221	£230	£244	£315	£517	£1,203	£884	£743	£5,170
Ammunition		£0	£125	£0	£0	£125	£0	£0	£125	£0	£0	£125	£600	£1,100
Waste Disposal		£225	£225	£225	£190	£235	£245	£260	£335	£550	£1,280	£940	£790	£5,500
Gross Wages - Abattoir Manager		£1,700	£1,700	£1,700	£1,700	£1,700	£1,700	£1,700	£1,700	£1,700	£1,700	£1,700	£700	£19,400
Gross Wages - Office Staff		£300	£300	£300	£300	£300	£300	£300	£400	£500	£700	£700	£600	£5,000
Gross Wages - Slaughtermen/Butcher		£641	£641	£641	£542	£670	£698	£741	£955	£1,568	£3,648	£2,679	£2,252	£15,675
Insurance		£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£2,400
Rent		£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£2,400
Rates		£0	£0	£0	£0	£400	£0	£0	£0	£0	£0	£0	£0	£400
Electricity		£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£12,000
Fuel and Oil		£250	£195	£195	£195	£145	£145	£145	£195	£250	£250	£250	£200	£2,415
Repairs, Servicing and Cleaning		£100	£100	£100	£100	£100	£100	£100	£100	£200	£200	£200	£0	£1,400
Licenses		£0	£0	£0	£0	£175	£0	£0	£0	£0	£0	£0	£44	£219
Vehicle Insurance		£44	£44	£44	£44	£44	£44	£44	£44	£44	£44	£44	£200	£684
Misc. Motor Expenses		£0	£200	£0	£200	£0	£200	£0	£0	£0	£200	£0	£0	£800
Advertising		£0	£0	£50	£0	£0	£0	£0	£100	£0	£0	£0	£0	£150
Affiliation/Membership Fees		£400	£0	£0	£0	£0	£0	£0	£0	£350	£0	£0	£150	£900
Telephone		£0	£0	£150	£0	£0	£150	£0	£0	£150	£0	£0	£12	£462
Office Stationery		£12	£12	£12	£12	£12	£12	£12	£12	£12	£12	£12	£125	£257
Accountancy and Legal/Professional Ser		£0	£0	£375	£0	£0	£125	£0	£0	£250	£0	£0	£0	£750
Repairs and Renewals		£500	£0	£0	£0	£500	£0	£0	£0	£500	£0	£0	£0	£1,500
Premises Expenses		£0	£300	£0	£0	£0	£50	£0	£0	£0	£150	£0	£60	£560
Lab Services/Pest Control		£30	£30	£30	£20	£20	£30	£40	£60	£60	£60	£60	£300	£740
HP and Loan Interest		£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£0	£3,300
Clothing		£50	£0	£0	£0	£50	£0	£0	£50	£0	£0	£0	£0	£150
Training		£0	£0	£750	£0	£0	£0	£0	£0	£0	£0	£0	£0	£750
<b>Total Cash Out</b>		<b>£6,364</b>	<b>£5,784</b>	<b>£6,684</b>	<b>£5,381</b>	<b>£6,397</b>	<b>£5,930</b>	<b>£5,486</b>	<b>£6,091</b>	<b>£8,551</b>	<b>£11,647</b>	<b>£9,594</b>	<b>£8,625</b>	<b>£86,532</b>
Cash In - Cash Out		-£2,914	-£2,334	-£3,234	-£2,474	-£2,829	-£2,207	-£1,531	-£1,086	-£501	£6,943	£3,851	£2,745	<b>-£5,570</b>
Opening Cash Balance		-£10,908	-£13,822	-£16,155	-£19,389	-£21,863	-£24,692	-£26,899	-£28,430	-£29,516	-£30,017	-£23,074	-£19,222	
Closing Cash Balance		<b>-£13,822</b>	<b>-£16,155</b>	<b>-£19,389</b>	<b>-£21,863</b>	<b>-£24,692</b>	<b>-£26,899</b>	<b>-£28,430</b>	<b>-£29,516</b>	<b>-£30,017</b>	<b>-£23,074</b>	<b>-£19,222</b>	<b>-£16,477</b>	

**Abattoir 2011**

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
<b><u>Cash In</u></b>	<b><u>Charge</u></b>													
Slaughter & Collect	£10.50	£172	£172	£172	£172	£343	£343	£343	£858	£2,175	£5,723	£5,150	£4,006	£19,628
Slaughter & Deliver	£13.00	£2,976	£2,976	£2,976	£2,480	£2,905	£3,047	£3,259	£3,684	£5,101	£11,053	£6,943	£6,235	£53,633
Additional Services	£2.50	£613	£613	£613	£518	£640	£668	£709	£913	£1,499	£3,488	£2,562	£2,153	£14,988
<b>Total Cash In</b>		<b>£3,761</b>	<b>£3,761</b>	<b>£3,761</b>	<b>£3,169</b>	<b>£3,889</b>	<b>£4,058</b>	<b>£4,311</b>	<b>£5,455</b>	<b>£8,775</b>	<b>£20,263</b>	<b>£14,655</b>	<b>£12,393</b>	<b>£88,249</b>
<b><u>Cash Out</u></b>														
Vet Services		£218	£0	£0	£218	£0	£0	£218	£0	£0	£218	£0	£218	£1,090
Delivery		£0	£0	£200	£0	£0	£200	£0	£0	£200	£300	£300	£250	£1,450
Levies on throughput		£231	£231	£231	£195	£241	£251	£266	£343	£564	£1,311	£963	£809	£5,635
Ammunition		£0	£125	£0	£0	£125	£0	£0	£125	£0	£0	£125	£600	£1,100
Waste Disposal		£245	£245	£245	£207	£256	£267	£283	£365	£600	£1,395	£1,025	£861	£5,995
Gross Wages - Abattoir Manager		£1,700	£1,700	£1,700	£1,700	£1,700	£1,700	£1,700	£1,700	£1,700	£1,700	£1,700	£700	£19,400
Gross Wages - Office Staff		£300	£300	£300	£300	£300	£300	£300	£400	£500	£700	£700	£600	£5,000
Gross Wages - Slaughtermen/Butcher		£699	£699	£699	£590	£730	£761	£808	£1,041	£1,709	£3,976	£2,920	£2,454	£17,086
Insurance		£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£2,400
Rent		£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£2,400
Rates		£0	£0	£0	£0	£400	£0	£0	£0	£0	£0	£0	£0	£400
Electricity		£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£12,000
Fuel and Oil		£250	£195	£195	£195	£145	£145	£145	£195	£250	£250	£250	£200	£2,415
Repairs, Servicing and Cleaning		£100	£100	£100	£100	£100	£100	£100	£100	£200	£200	£200	£0	£1,400
Licenses		£0	£0	£0	£0	£175	£0	£0	£0	£0	£0	£0	£44	£219
Vehicle Insurance		£44	£44	£44	£44	£44	£44	£44	£44	£44	£44	£44	£200	£684
Misc. Motor Expenses		£0	£200	£0	£200	£0	£200	£0	£0	£0	£200	£0	£0	£800
Advertising		£0	£0	£50	£0	£0	£0	£0	£100	£0	£0	£0	£0	£150
Affiliation/Membership Fees		£400	£0	£0	£0	£0	£0	£0	£0	£350	£0	£0	£150	£900
Telephone		£0	£0	£150	£0	£0	£150	£0	£0	£150	£0	£0	£12	£462
Office Stationery		£12	£12	£12	£12	£12	£12	£12	£12	£12	£12	£12	£125	£257
Accountancy and Legal/Professional Ser		£0	£0	£375	£0	£0	£125	£0	£0	£250	£0	£0	£0	£750
Repairs and Renewals		£500	£0	£0	£0	£500	£0	£0	£0	£500	£0	£0	£0	£1,500
Premises Expenses		£0	£300	£0	£0	£0	£50	£0	£0	£0	£150	£0	£60	£560
Lab Services/Pest Control		£30	£30	£30	£20	£20	£30	£40	£60	£60	£60	£60	£300	£740
HP and Loan Interest		£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£0	£3,300
Clothing		£50	£0	£0	£0	£50	£0	£0	£50	£0	£0	£0	£0	£150
Training		£0	£0	£0	£0	£0	£0	£0	£750	£0	£0	£0	£0	£750
<b>Total Cash Out</b>		<b>£6,479</b>	<b>£5,881</b>	<b>£6,031</b>	<b>£5,481</b>	<b>£6,498</b>	<b>£6,035</b>	<b>£5,616</b>	<b>£6,985</b>	<b>£8,788</b>	<b>£12,217</b>	<b>£9,999</b>	<b>£8,984</b>	<b>£88,993</b>
Cash In - Cash Out		-£2,718	-£2,120	-£2,270	-£2,312	-£2,609	-£1,978	-£1,306	-£1,530	-£13	£8,046	£4,656	£3,410	<b>-£744</b>
Opening Cash Balance		-£16,477	-£19,196	-£21,316	-£23,586	-£25,898	-£28,507	-£30,485	-£31,791	-£33,320	-£33,333	-£25,287	-£20,631	
Closing Cash Balance		<b>-£19,196</b>	<b>-£21,316</b>	<b>-£23,586</b>	<b>-£25,898</b>	<b>-£28,507</b>	<b>-£30,485</b>	<b>-£31,791</b>	<b>-£33,320</b>	<b>-£33,333</b>	<b>-£25,287</b>	<b>-£20,631</b>	<b>-£17,221</b>	

**Abattoir 2012**

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
<b>Cash In</b>	<b>Charge</b>													
Slaughter & Collect	£10.50	£187	£187	£187	£187	£374	£374	£374	£936	£2,370	£6,238	£5,614	£4,366	£21,395
Slaughter & Deliver	£13.00	£3,244	£3,244	£3,244	£2,703	£3,166	£3,321	£3,552	£4,016	£5,560	£12,047	£7,568	£6,796	£58,460
Additional Services	£2.50	£668	£668	£668	£564	£698	£728	£772	£995	£1,634	£3,802	£2,792	£2,346	£16,336
<b>Total Cash In</b>		<b>£4,099</b>	<b>£4,099</b>	<b>£4,099</b>	<b>£3,454</b>	<b>£4,239</b>	<b>£4,423</b>	<b>£4,699</b>	<b>£5,946</b>	<b>£9,564</b>	<b>£22,087</b>	<b>£15,974</b>	<b>£13,509</b>	<b>£96,192</b>
<b>Cash Out</b>														
Vet Services		£238	£0	£0	£238	£0	£0	£238	£0	£0	£238	£0	£238	£1,188
Delivery		£0	£0	£200	£0	£0	£200	£0	£0	£200	£300	£300	£250	£1,450
Levies on throughput		£251	£251	£251	£212	£262	£274	£290	£374	£614	£1,430	£1,050	£882	£6,142
Ammunition		£0	£125	£0	£0	£125	£0	£0	£125	£0	£0	£125	£600	£1,100
Waste Disposal		£267	£267	£267	£226	£279	£291	£309	£398	£653	£1,521	£1,117	£939	£6,535
Gross Wages - Abattoir Manager		£1,700	£1,700	£1,700	£1,700	£1,700	£1,700	£1,700	£1,700	£1,700	£1,700	£1,700	£700	£19,400
Gross Wages - Office Staff		£300	£300	£300	£300	£300	£300	£300	£400	£500	£700	£700	£600	£5,000
Gross Wages - Slaughtermen/Butcher		£762	£762	£762	£643	£796	£830	£880	£1,134	£1,862	£4,334	£3,183	£2,675	£18,623
Insurance		£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£2,400
Rent		£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£2,400
Rates		£0	£0	£0	£0	£400	£0	£0	£0	£0	£0	£0	£0	£400
Electricity		£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£12,000
Fuel and Oil		£250	£195	£195	£195	£145	£145	£145	£195	£250	£250	£250	£200	£2,415
Repairs, Servicing and Cleaning		£100	£100	£100	£100	£100	£100	£100	£100	£200	£200	£200	£0	£1,400
Licenses		£0	£0	£0	£0	£175	£0	£0	£0	£0	£0	£0	£44	£219
Vehicle Insurance		£44	£44	£44	£44	£44	£44	£44	£44	£44	£44	£44	£200	£684
Misc. Motor Expenses		£0	£200	£0	£200	£0	£200	£0	£0	£0	£200	£0	£0	£800
Advertising		£0	£0	£50	£0	£0	£0	£0	£100	£0	£0	£0	£0	£150
Affiliation/Membership Fees		£400	£0	£0	£0	£0	£0	£0	£0	£350	£0	£0	£150	£900
Telephone		£0	£0	£150	£0	£0	£150	£0	£0	£150	£0	£0	£12	£462
Office Stationery		£12	£12	£12	£12	£12	£12	£12	£12	£12	£12	£12	£125	£257
Accountancy and Legal/Professional Ser		£0	£0	£375	£0	£0	£125	£0	£0	£250	£0	£0	£0	£750
Repairs and Renewals		£500	£0	£0	£0	£500	£0	£0	£0	£500	£0	£0	£0	£1,500
Premises Expenses		£0	£300	£0	£0	£0	£50	£0	£0	£0	£150	£0	£60	£560
Lab Services/Pest Control		£30	£30	£30	£20	£20	£30	£40	£60	£60	£60	£60	£300	£740
HP and Loan Interest		£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£0	£3,300
Clothing		£50	£0	£0	£0	£50	£0	£0	£50	£0	£0	£0	£0	£150
Training		£0	£0	£750	£0	£0	£0	£0	£0	£0	£0	£0	£0	£750
<b>Total Cash Out</b>		<b>£6,604</b>	<b>£5,986</b>	<b>£6,886</b>	<b>£5,590</b>	<b>£6,608</b>	<b>£6,150</b>	<b>£5,758</b>	<b>£6,392</b>	<b>£9,046</b>	<b>£12,838</b>	<b>£10,441</b>	<b>£9,375</b>	<b>£91,676</b>
Cash In - Cash Out		-£2,505	-£1,888	-£2,788	-£2,136	-£2,370	-£1,728	-£1,059	-£446	£518	£9,249	£5,533	£4,134	<b>£4,516</b>
Opening Cash Balance		-£17,221	-£19,727	-£21,614	-£24,402	-£26,537	-£28,907	-£30,635	-£31,694	-£32,140	-£31,622	-£22,373	-£16,840	
Closing Cash Balance		<b>-£19,727</b>	<b>-£21,614</b>	<b>-£24,402</b>	<b>-£26,537</b>	<b>-£28,907</b>	<b>-£30,635</b>	<b>-£31,694</b>	<b>-£32,140</b>	<b>-£31,622</b>	<b>-£22,373</b>	<b>-£16,840</b>	<b>-£12,705</b>	

**Sales and Marketing 2009**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
<b><u>Cash In</u></b>													
Lamb Sales	From January to the end of May				£39,166	£8,161	£9,035	£10,784	£13,990	£34,974	£21,567	£18,653	£156,329
Marketing Grant	From January to the end of May				£0	£0	£0	£1,050	£1,050	£1,050	£1,800	£1,050	£6,000
Membership	From January to the end of May				£5,451	£0	£0	£0	£0	£0	£0	£0	£5,451
Misc	From January to the end of May				£535	£0	£0	£0	£0	£0	£0	£0	£535
<b>Total Cash In</b>	From January to the end of May				<b>£45,152</b>	<b>£8,161</b>	<b>£9,035</b>	<b>£11,834</b>	<b>£15,040</b>	<b>£36,024</b>	<b>£23,367</b>	<b>£19,703</b>	<b>£168,315</b>
<b><u>Cash Out</u></b>													
Lamb Purchases	From January to the end of May				£30,029	£5,846	£6,473	£7,726	£10,022	£25,056	£15,451	£13,363	£113,966
Slaughter Fees	From January to the end of May				£11,169	£2,071	£2,292	£2,736	£3,550	£8,874	£5,472	£4,733	£40,897
Delivery	From January to the end of May				£0	£200	£0	£0	£200	£200	£0	£200	£800
Gross Wages - Marketing Manager	From January to the end of May				£0	£0	£0	£2,100	£2,100	£2,100	£2,100	£2,100	£10,500
Office Overheads	From January to the end of May				£1,500	£300	£300	£300	£300	£300	£300	£300	£3,600
Insurance	From January to the end of May					£286	£286	£286	£286	£286	£286	£286	£2,002
Travel and Subsistence	From January to the end of May					£0	£600	£0	£350	£0	£300	£0	£1,250
Advertising and Promotion	From January to the end of May					£0	£0	£600	£0	£0	£1,200	£0	£1,800
Packaging, Postage and Carriage	From January to the end of May				£273	£125	£125	£250	£375	£500	£500	£500	£2,648
Telephone	From January to the end of May					£150	£0	£0	£150	£0	£0	£150	£450
Office Stationery	From January to the end of May					£12	£12	£12	£12	£12	£12	£12	£84
Accountancy and Legal/Professional Se	From January to the end of May					£125	£0	£0	£250	£0	£0	£125	£500
Training	From January to the end of May					£0	£0	£750	£0	£0	£0	£0	£750
<b>Total Cash Out</b>	From January to the end of May				<b>£42,971</b>	<b>£9,115</b>	<b>£10,088</b>	<b>£14,760</b>	<b>£17,595</b>	<b>£37,328</b>	<b>£25,622</b>	<b>£21,769</b>	<b>£179,247</b>
Cash In - Cash Out	From January to the end of May				£2,181	-£954	-£1,053	-£2,926	-£2,555	-£1,304	-£2,254	-£2,066	<b><u>-£10,933</u></b>
Opening Cash Balance	From January to the end of May					£2,181	£1,227	£173	-£2,753	-£5,308	-£6,612	-£8,866	
Closing Cash Balance	From January to the end of May				<b>£2,181</b>	<b>£1,227</b>	<b>£173</b>	<b>-£2,753</b>	<b>-£5,308</b>	<b>-£6,612</b>	<b>-£8,866</b>	<b>-£10,933</b>	

**Sales and Marketing 2010**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
<b><u>Cash In</u></b>													
Lamb Sales	£12,045	£12,045	£12,045	£9,490	£9,490	£10,220	£11,315	£13,505	£17,520	£43,800	£27,010	£23,360	£201,845
Marketing Grant	£1,050	£1,050	£1,050	£1,050	£1,050	£1,050	£1,050	£1,050	£1,050	£1,050	£1,050	£1,050	£12,600
Membership	£2,750	£2,750	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£5,500
<b>Total Cash In</b>	<b>£15,845</b>	<b>£15,845</b>	<b>£13,095</b>	<b>£10,540</b>	<b>£10,540</b>	<b>£11,270</b>	<b>£12,365</b>	<b>£14,555</b>	<b>£18,570</b>	<b>£44,850</b>	<b>£28,060</b>	<b>£24,410</b>	<b>£219,945</b>
<b><u>Cash Out</u></b>													
Lamb Purchases	£8,250	£8,250	£8,250	£6,500	£6,500	£7,000	£7,750	£9,250	£12,000	£30,000	£18,500	£16,000	£138,250
Slaughter Fees	£2,805	£2,805	£2,805	£2,210	£2,210	£2,380	£2,635	£3,145	£4,080	£10,200	£6,290	£5,440	£47,005
Delivery	£0	£0	£200	£0	£0	£200	£0	£0	£200	£200	£0	£200	£1,000
Gross Wages - Marketing Manager	£2,100	£2,100	£2,100	£2,100	£2,100	£2,100	£2,100	£2,100	£2,100	£2,100	£2,100	£2,100	£25,200
Office Overheads	£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£3,600
Insurance	£167	£167	£167	£167	£167	£167	£167	£167	£167	£167	£167	£167	£2,004
Travel and Subsistence	£0	£900	£0	£600	£0	£0	£1,200	£0	£700	£0	£0	£0	£3,400
Advertising and Promotion	£600	£500	£200	£0	£0	£600	£0	£1,200	£0	£0	£0	£0	£3,100
Packaging, Postage and Carriage	£125	£125	£125	£125	£125	£125	£125	£250	£375	£500	£500	£500	£3,000
Telephone	£0	£0	£150	£0	£0	£150	£0	£0	£150	£0	£0	£150	£600
Office Stationery	£12	£12	£12	£12	£12	£12	£12	£12	£12	£12	£12	£12	£144
Accountancy and Legal/Professional Se	£0	£0	£375	£0	£0	£125	£0	£0	£250	£0	£0	£125	£875
Training	£0	£0	£0	£750	£0	£0	£0	£0	£0	£0	£0	£0	£750
<b>Total Cash Out</b>	<b>£14,359</b>	<b>£15,159</b>	<b>£14,684</b>	<b>£12,764</b>	<b>£11,414</b>	<b>£13,159</b>	<b>£14,289</b>	<b>£16,424</b>	<b>£20,334</b>	<b>£43,479</b>	<b>£27,869</b>	<b>£24,994</b>	<b>£228,928</b>
Cash In - Cash Out	£1,486	£686	-£1,589	-£2,224	-£874	-£1,889	-£1,924	-£1,869	-£1,764	£1,371	£191	-£584	<b>-£8,983</b>
Opening Cash Balance	-£10,933	-£9,447	-£8,761	-£10,350	-£12,574	-£13,448	-£15,337	-£17,261	-£19,130	-£20,894	-£19,523	-£19,332	
Closing Cash Balance	<b>-£9,447</b>	<b>-£8,761</b>	<b>-£10,350</b>	<b>-£12,574</b>	<b>-£13,448</b>	<b>-£15,337</b>	<b>-£17,261</b>	<b>-£19,130</b>	<b>-£20,894</b>	<b>-£19,523</b>	<b>-£19,332</b>	<b>-£19,916</b>	



**Sales and Marketing 2011**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
<b><u>Cash In</u></b>													
Lamb Sales	£13,219	£13,219	£13,219	£10,415	£10,415	£11,216	£12,418	£14,821	£19,228	£48,069	£29,643	£25,637	£221,518
Marketing Grant	£1,050	£1,050	£1,050	£1,050	£1,050	£1,050	£1,050	£1,050	£1,050	£1,050	£1,050	£1,050	£12,600
Membership	£2,900	£2,900	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£5,800
<b>Total Cash In</b>	<b>£17,169</b>	<b>£17,169</b>	<b>£14,269</b>	<b>£11,465</b>	<b>£11,465</b>	<b>£12,266</b>	<b>£13,468</b>	<b>£15,871</b>	<b>£20,278</b>	<b>£49,119</b>	<b>£30,693</b>	<b>£26,687</b>	<b>£239,918</b>
<b><u>Cash Out</u></b>													
Lamb Purchases	£8,993	£8,993	£8,993	£7,085	£7,085	£7,630	£8,448	£10,083	£13,080	£32,700	£20,165	£17,440	£150,693
Slaughter Fees	£3,057	£3,057	£3,057	£2,409	£2,409	£2,594	£2,872	£3,428	£4,447	£11,118	£6,856	£5,930	£51,235
Delivery	£0	£0	£200	£0	£0	£200	£0	£0	£200	£200	£0	£200	£1,000
Gross Wages - Marketing Manager	£2,100	£2,100	£2,100	£2,100	£2,100	£2,100	£2,100	£2,100	£2,100	£2,100	£2,100	£2,100	£25,200
Office Overheads	£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£3,600
Insurance	£167	£167	£167	£167	£167	£167	£167	£167	£167	£167	£167	£167	£2,004
Travel and Subsistence	£0	£900	£0	£600	£0	£0	£1,200	£0	£700	£0	£0	£0	£3,400
Advertising and Promotion	£600	£0	£200	£0	£500	£0	£0	£1,200	£0	£0	£0	£0	£2,500
Packaging, Postage and Carriage	£125	£125	£125	£125	£125	£125	£125	£250	£375	£500	£500	£500	£3,000
Telephone	£0	£0	£150	£0	£0	£150	£0	£0	£150	£0	£0	£150	£600
Office Stationery	£12	£12	£12	£12	£12	£12	£12	£12	£12	£12	£12	£12	£144
Accountancy and Legal/Professional Se	£0	£0	£375	£0	£0	£125	£0	£0	£250	£0	£0	£125	£875
Training	£0	£0	£0	£0	£0	£0	£0	£750	£0	£0	£0	£0	£750
<b>Total Cash Out</b>	<b>£15,354</b>	<b>£15,654</b>	<b>£15,679</b>	<b>£12,798</b>	<b>£12,698</b>	<b>£13,403</b>	<b>£15,224</b>	<b>£18,290</b>	<b>£21,781</b>	<b>£47,097</b>	<b>£30,100</b>	<b>£26,924</b>	<b>£245,001</b>
Cash In - Cash Out	£1,815	£1,515	-£1,410	-£1,333	-£1,233	-£1,137	-£1,756	-£2,418	-£1,504	£2,022	£592	-£237	<b>-£5,083</b>
Opening Cash Balance	-£19,916	-£18,100	-£16,585	-£17,995	-£19,328	-£20,561	-£21,698	-£23,454	-£25,873	-£27,376	-£25,354	-£24,762	
Closing Cash Balance	<b>-£18,100</b>	<b>-£16,585</b>	<b>-£17,995</b>	<b>-£19,328</b>	<b>-£20,561</b>	<b>-£21,698</b>	<b>-£23,454</b>	<b>-£25,873</b>	<b>-£27,376</b>	<b>-£25,354</b>	<b>-£24,762</b>	<b>-£24,998</b>	

**Sales and Marketing 2012**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
<b><u>Cash In</u></b>													
Lamb Sales	£14,703	£14,703	£14,703	£11,584	£11,584	£12,475	£13,812	£16,485	£21,386	£53,465	£32,970	£28,514	£239,812
Marketing Grant	£1,050	£1,050	£1,050	£1,050	£1,050	£1,050	£1,050	£1,050	£1,050	£1,050	£1,050	£1,050	£12,600
Membership	£3,100	£3,100	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£6,200
<b>Total Cash In</b>	<b>£18,853</b>	<b>£18,853</b>	<b>£15,753</b>	<b>£12,634</b>	<b>£12,634</b>	<b>£13,525</b>	<b>£14,862</b>	<b>£17,535</b>	<b>£22,436</b>	<b>£54,515</b>	<b>£34,020</b>	<b>£29,564</b>	<b>£258,612</b>
<b><u>Cash Out</u></b>													
Lamb Purchases	£9,802	£9,802	£9,802	£7,723	£7,723	£8,317	£9,208	£10,990	£14,257	£35,643	£21,980	£19,010	£164,255
Slaughter Fees	£3,333	£3,333	£3,333	£2,626	£2,626	£2,828	£3,131	£3,737	£4,847	£12,119	£7,473	£6,463	£55,847
Delivery	£0	£0	£200	£0	£0	£200	£0	£0	£200	£200	£0	£200	£1,000
Gross Wages - Marketing Manager	£2,100	£2,100	£2,100	£2,100	£2,100	£2,100	£2,100	£2,100	£2,100	£2,100	£2,100	£2,100	£25,200
Office Overheads	£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£300	£3,600
Insurance	£167	£167	£167	£167	£167	£167	£167	£167	£167	£167	£167	£167	£2,004
Travel and Subsistence	£0	£900	£0	£600	£0	£0	£1,200	£0	£700	£0	£0	£0	£3,400
Advertising and Promotion	£600	£0	£200	£0	£0	£0	£0	£1,200	£0	£0	£0	£0	£2,000
Packaging, Postage and Carriage	£125	£125	£125	£125	£125	£125	£125	£250	£375	£500	£500	£500	£3,000
Telephone	£0	£0	£150	£0	£0	£150	£0	£0	£150	£0	£0	£150	£600
Office Stationery	£12	£12	£12	£12	£12	£12	£12	£12	£12	£12	£12	£12	£144
Accountancy and Legal/Professional Se	£0	£0	£375	£0	£0	£125	£0	£0	£250	£0	£0	£125	£875
Training	£0	£0	£750	£0	£0	£0	£0	£0	£0	£0	£0	£0	£750
<b>Total Cash Out</b>	<b>£16,438</b>	<b>£16,738</b>	<b>£17,513</b>	<b>£13,652</b>	<b>£13,052</b>	<b>£14,323</b>	<b>£16,242</b>	<b>£18,755</b>	<b>£23,359</b>	<b>£51,041</b>	<b>£32,532</b>	<b>£29,027</b>	<b>£262,674</b>
Cash In - Cash Out	£2,414	£2,114	-£1,761	-£1,018	-£418	-£798	-£1,381	-£1,221	-£923	£3,474	£1,488	£538	<b>-£4,062</b>
Opening Cash Balance	-£24,998	-£22,584	-£20,470	-£22,231	-£23,249	-£23,667	-£24,466	-£25,846	-£27,067	-£27,990	-£24,516	-£23,028	
Closing Cash Balance	<b>-£22,584</b>	<b>-£20,470</b>	<b>-£22,231</b>	<b>-£23,249</b>	<b>-£23,667</b>	<b>-£24,466</b>	<b>-£25,846</b>	<b>-£27,067</b>	<b>-£27,990</b>	<b>-£24,516</b>	<b>-£23,028</b>	<b>-£22,491</b>	

**Key Assumptions on the above figures**

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Abattoir</b>				
Throughput	4,680	5,500	5,995	6,535
Slaughter and Collect charge	£9.35	£10.50	£10.50	£10.50
Slaughter and Deliver charge	£12.50	£13.00	£13.00	£13.00
<b>Sales and Marketing</b>				
No. of Sales	2,400	2,765	3,014	3,285
Sales price less purchase price	£19/head	£23/head	£23.50/head	£25/head
<b>The Marts</b>				
Profit/Deficit from Sales Season	£1,500	£2,000	£2,500	£2,500

## **Appendix 5: Shetland Lamb Marketing Report**





**Shetland Islands Council  
Economic Development Unit**

**Supplement for**

**Shetland ISA Recovery Scheme**

**Explanatory Notes and Additional Information**

**Please complete all sections of the Council's Application for Funding - Corporate Form with reference to this Supplement, the Guidelines and the Help Notes.**

## **1 Aim**

The Shetland ISA Recovery Scheme has been introduced to stimulate research and Development in Shetland's salmon farming industry impacted by the outbreak of Infectious Salmon Anemia (ISA) in 2009. It exists to provide part of the Member State contribution for applicants under the EFF Aquaculture Scheme (ISA Support).

## **2 Eligibility**

Only companies operating in the ISA Zone or who can prove a significant impact from the ISA Restriction may apply.

Eligible projects:-

- Collective actions
- Pilot projects
- Promotional and development of new markets
- Promotional campaigns
- Innovation and new ideas in a Shetland context.
- Application of new or existing technology to assist the efficiency of Shetland businesses.
- Proposals which will enhance the environment or lessen industrial impact.

## **3 Targets**

All organisations who have been affected by the ISA restrictions are eligible subject to the competition clause outlined below. Financial need of the business or individual making the proposal will also be considered.

## **4 Ineligible Projects**

The following type of projects will not be eligible for assistance:

- Where a proposal would result in competition which could affect the viability of an existing Shetland business.
- The pursuit of a patent for a process.
- Projects which cannot demonstrate a collaborative element.
- Where the study can be regarded as 'academic' or 'of interest' but has no potential to have a practical economic application in Shetland.

## **5 Eligible Costs**

Eligible costs for a project shall be:

- Time spent on experimental work.



- Cost of equipment and materials.
- Investigation into markets and processes providing they form an integral part of an approved study.
- Costs of obtaining literature and other research material of subject being studied.
- Costs of producing reports or other published material.

## **6 Limits and Procedure**

Limit of grants are 8% of approved costs, either from Council funds or shared with other bodies. Any higher levels of assistance sought, either in terms of percentage or amount, would be subject to submission to Development Committee for consideration. Grants will only be awarded as a member state contribution towards EFF funded projects.

## **7 Duration**

The scheme will operate until 2012. All applications must be submitted by 30 July 2009.

Shetland Islands Council  
Economic Development Unit  
Solarhus  
3 North Ness Business Park  
LERWICK  
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ZE1 0LZ

June 2009

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## **REPORT**

**To: Development Committee**

**22 June 2009**

**From: Economic Development Officer**

**DV065-F**  
**Shetland Infectious Salmon Anaemia (ISA) Recovery Scheme**

### **1.0 Introduction**

- 1.1 The purpose of this report is to present the case for introducing a scheme to support salmon farming companies which have been affected by the recent Infectious Salmon Anaemia (ISA) outbreak. By establishing a grant scheme for Shetland, the Council should be able to attract £1.15m of external funding to promote aquaculture projects.

### **2.0 Links 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 aim contained in the Economic Development Policy Statement (2007-2011) to “develop projects aimed at promoting aquaculture as versatile, profitable and efficient”.

### **3.0 Background**

- 3.1 In January the salmon industry in Shetland was hit for the second time in 10 years with an outbreak of the notifiable disease Infectious Salmon Anaemia (ISA).
- 3.2 In response to the economic impact of the disease the Scottish Government announced that they were to introduce financial support measures to support the industry.
- 3.3 In April the Scottish Government launched the ISA Recovery Support Scheme. The scheme prioritises EFF (European Fisheries Fund) assistance for companies affected by ISA restrictions. The Government have ring fenced up to £1m of EFF funds for the scheme.

- 3.4 The scheme has two different mechanisms (called Axis) under which assistance can be granted. Axis 2 is the mechanism for individual companies to seek assistance. Grants of up to 60% (which must include funding from another source of public funding) are available. The companies themselves must contribute at least 40% towards the total project cost.
- 3.5 The other mechanism is Axis 3, which can fund private ventures up to 80% of total project costs. The rules stipulate that the applicant projects are joint ventures between companies or with other organisations. Under Axis 3 it is possible to fund up to 100% of project costs as long as the projects are wholly funded by public bodies.
- 3.6 The Shetland Aquaculture Association has encouraged the various salmon farming operations that have suffered due to the outbreak, to consider applying for funding. A number of eligible projects have been identified. In order to be eligible for funding the projects must contribute to lasting economic benefits to the area and must aim to achieve some if not all of the following:-
- create new, or safeguard existing jobs
  - improve the health and welfare of the species being farmed
  - provide safe working conditions
  - have no adverse effect on the environment
- 3.7 The Council can make a real and substantial difference to the viability of the salmon farming industry if it were to introduce an assistance scheme.

#### **4.0 Proposal**

- 4.4 It is proposed that the SIC introduce a local scheme to assist the industry. The Shetland ISA Recovery Scheme (SIRS) would be introduced to stimulate research and development in Shetland's salmon farming sector and would exist to provide the member state contribution for the Scottish Government's EFF scheme.
- 4.5 The Council would therefore be providing the Member State contribution and this would mean that the projects could be eligible for 100% funding.
- 4.6 The scheme would award grant finance to salmon farming operations that operate in (or have been badly affected by) the ISA zone (see Appendix 1) subject to successfully applying for EFF money.
- 4.7 The scheme would follow all the same eligibility criteria as the Government's ISA scheme. All projects would need to be of a collaborative nature and be subject to the same rules and regulations as stipulated to be eligible for Axis 3 funding. The proposed guidelines for the Council's scheme is attached as Appendix 2.

## **5.0 Financial Implications**

5.1 The total cost of the scheme is likely to be in the region of £100,000.

The costs are estimated as follows:-

EFF (80%)	£1,000,000
Scottish Government (12%)	£150,000
SIC (8%)	£100,000
Estimated total cost	£1,250,000

The project (if approved) will source money from the Fisheries General Assistance budget (RRD 2120 2402). Any shortfall in this budget would be met by a virement from Economic Infrastructure Grants budget (RRD 1530 2402).

## **6.0 Policy and Delegated Authority**

6.1 This report has been prepared under Economic Development Policy number 3, "Encourage sustainable growth in Shetland's aquaculture industry" 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 11.0 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

6.3 As the subject of this report is covered by existing policy the Development Committee does have delegated authority to make a decision. However, the approval of a new scheme requires a decision of the Council.

## **7.0 Observations**

7.1 The deadline for submitting applications to the EFF scheme is the end of July, hence this report having to be put to a special Development Committee meeting.

7.2 The scheme will only be operational if the Scottish Government approves the EFF funding element of the individual projects.

7.3 The NAFC will play an integral part of most of the projects that will receive funding through this scheme. Most projects will require scientific monitoring and evaluation.

## **8.0 Conclusions**

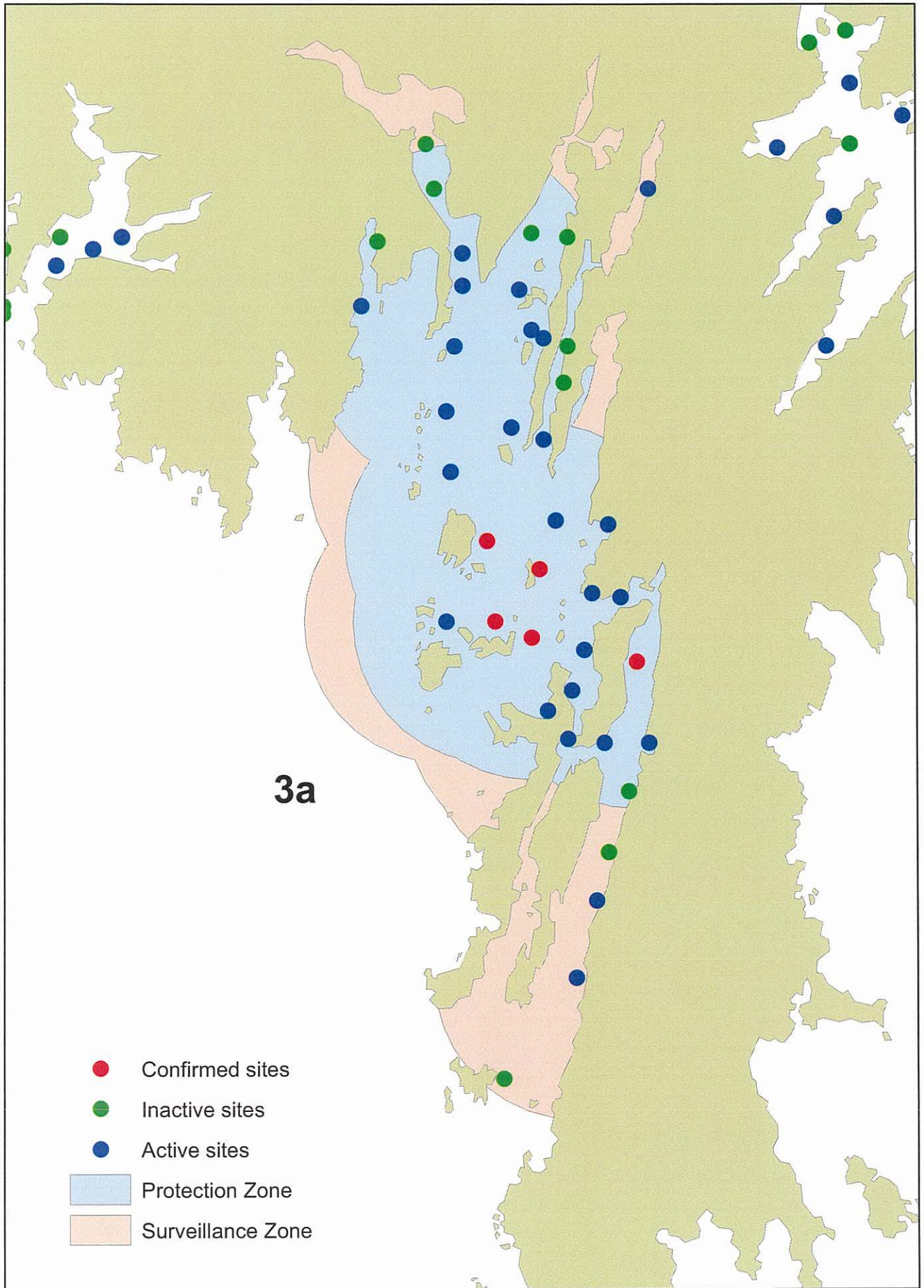
- 8.1 A number of salmon farming businesses have been badly affected by the outbreak of ISA. This scheme is not only designed to assist these firms in difficult times but also to encourage them to work on collaborative projects for the good of the industry as a whole.

## **9.0 Recommendations**

- 9.1 It is recommended that the Development Committee recommends that the Council approves funding of up to £100,000 for a support scheme as outlined in section 4 and Appendix 2 of this report.

Our Ref: MS RF1250.  
Date: 11 June 2009

Report No: DV065-F



0 1.5 3 6 9 12 Kilometers

21 May 2009