

MINUTE

A & B

Special Development Committee
Council Chamber, Town Hall, Lerwick
Monday 22 June 2009 at 2.15pm

Present:

J G Simpson	L F Baisley
J Budge	A J Cluness
A T J Cooper	A T Doull
A G L Duncan	B L Fullerton
F B Grains	I J Hawkins
J H Henry	A J Hughson
W H Manson	C H J Miller
R C Nickerson	F A Robertson
C L Smith	A S Wishart
J W G Wills	

Apologies

L Angus	R S Henderson
G Robinson	

In Attendance (Officers):

N Grant, Head of Economic Development
L Adamson, Committee Officer

Chairperson:

Mr J G Simpson, Chairperson of the Committee, presided.

Circular:

The circular calling the meeting was held as read.

Declarations of Interests

Dr J W G Wills declared an interest as he had a business loan from the Shetland Development Trust.

Mr A G L Duncan declared an interest in Agenda Item 2, but would take part in the discussion.

Mr A T J Cooper declared an interest in Agenda Item 3.

Mr A T Doull declared an interest in Agenda Item 3 as he was a partner in an agricultural business that was a member of SLMG, however he would take part in the discussion as a Member for Shetland North.

63/09 **Development of Abattoir Facilities in Shetland.**

The Committee considered a report by the Head of Economic Development (Appendix 1).

Mr A J Cluness referred to the £2.4m which has been set aside for the new abattoir, and said that the Council should not lose sight of building the abattoir and suggested that it would be worthwhile to make a further approach to Europe to find

out whether a special dispensation could be given to Shetland, and if this was not successful the Council should support the local business in the best way possible.

The Chairperson suggested that the Committee should make a decision before proceeding to discuss the next two reports on the agenda. He commented that he was very much in favour of building a new slaughterhouse, however there was also the decisions to be made to upgrade the existing facilities.

Mrs C H J Miller proposed that no public money should be put into either business until such time as the complete Agricultural Strategy was produced in August. Mrs Miller stated that she had severe reservations relating to the business plan prepared by Pure Shetland Lamb Ltd., and although the business review prepared by SLMG assisted to understand the entire industry, it was clear that both areas are experiencing market failure. Mrs Miller proposed that a further case be made to Europe, asking for a dispensation to build a new slaughterhouse in Shetland.

Mrs Miller referred to the Recommendations in the report, and moved that the Committee approve Recommendation 11.1, but that Recommendation 11.2 be changed to read, " I further recommend that the Development Committee instruct the Head of Economic Development, the Chief Executive, and AB Associates Ltd., to construct a case for an exemption".

The Head of Economic Development confirmed that only the scope of the Agricultural Strategy would be complete by August. In response to a question, he advised that the intention was for an early draft of the scope to be presented to the Agriculture Panel later this week.

Mr C L Smith said there was a need for a new slaughterhouse, however the facility did not have to be to a 'Rolls Royce' standard. His main concern was what should be done in the interim period, as building a new slaughterhouse would take time, and both companies required financial assistance before they could move ahead.

Mr A G L Duncan referred to Mrs Miller's comments that both businesses were experiencing market failure, however he said that neither business was in market failure. Mr Duncan advised that Mr M G Smith had informed an earlier Agricultural Panel that the business was not in market failure. Mr Duncan said that European regulations were quite clear on the requirements to be State Aid compliant, and as the Boddam Slaughterhouse continues to operate it could not be said that the business was in market failure and therefore it would be a waste of time to go to Europe. Mr Duncan highlighted to Members the text in bold print in the report, "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". Mr Duncan said that both the abattoirs were operating inside the rules and regulations with no concerns, and therefore the Council would be clutching at straws to go to Europe.

The Head of Economic Development said that it could be difficult to make a case for market failure, however there may be other ways to get an exemption.

Mr A S Wishart referred to the comments from Mr Duncan that Boddam Slaughterhouse was not in market failure, and enquired whether this situation had changed as there appeared to be a contradiction between that statement and the report which states that it was unequivocal that a business has to be in market

failure before assistance would be available from Europe. The Head of Economic Development stated that the whole global circumstances have changed, and that situation has opened the door to put forward a further argument to Europe.

Ms L Baisley said there was a need for improved slaughtering and abattoir facilities in Shetland, and although the existing situation may not be ideal there was a need to support both facilities, and to develop processing to add value to products. She added that the people in the North Isles would not find the Boddam Slaughterhouse a very convenient option, and therefore Laxfirth also required support.

Mrs I J Hawkins said that it would be ideal to have a new abattoir at the marts and although there was a need for realisation, the Council should continue to see if a proposal would be State Aid compliant, but in the meantime to continue to support the facilities in Shetland at the moment. Mrs Hawkins noted that Pure Shetland Lamb Ltd. had a set period in which to purchase the equipment for upgrading the slaughterhouse, and she said that there was a need to move on and to accept the reports.

Mrs Miller referred to Item 2 on the agenda, and to Appendix 1 which was a letter from Pure Shetland Lamb Ltd's accountant, outlining the company's financial position, which provided an argument in support of de minimis, that the company was not in difficulty as at 30 June but that the company could be reasonably classed to be in difficulty by 31 December 2008. Mrs Miller said that the circumstances have changed for Pure Shetland Lamb Ltd., as their financial accountant states that the company is in financial difficulty. To make a case to Europe both companies have to have market failure, and there is evidence that both companies are in market failure. The Head of Economic Development clarified, that a company "in difficulty" was not the same as "market failure".

Mr A T J Cooper said that everybody would want a new state of the art Abattoir facility, however he highlighted that the time limit for applications for dispensation of 500,000 euros was 31 December 2010, and should there be any delays this would put a constraint on Pure Shetland Lamb Ltd. and Shetland Abattoir Co-operative Ltd. Mrs F B Grains suggested that there was no requirement for such a state of the art facility, when it would be possible to build a facility at a lower sum to meet all the necessary regulations.

Mr R C Nickerson said that he was aware that the general view for the good of the industry in the short to medium-term would be to upgrade the two existing slaughterhouses, however he had no objection for putting a case for an exemption to Europe. Mr Nickerson advised that his concern was that the industry needed support now, and the two slaughterhouses and the marts were crucial to the crofting community.

In response to questions from Dr J W G Wills, the Head of Economic Development reported that the sum of £2.4m was ring-fenced for a new abattoir facility until 2010. He explained that there was no record of any municipal slaughterhouses in Europe, and that a number of different options had been considered to provide a new abattoir in Shetland, and in his opinion no other options were possible unless those included in the report. In response to further questions from Dr Wills, the Head of Economic Development advised that the State Aid opinion on municipal slaughterhouses had been presented to an Agricultural Panel some years ago, however he agreed that a further request could be made to clarify the position. In

response to a further question, the Chairperson explained that it could take a significant length of time for any response from Europe regarding State Aid.

Mr Cluness enquired whether it would be possible to support the existing businesses in the meantime, setting aside a certain amount of funding, until a definite response was received from Europe. The Head of Economic Development explained that the support could be provided in the meantime, however he highlighted that the enhanced de minimis has to be claimed before December 2010.

Mr J H Henry questioned whether a stronger case could be made with the agricultural industry working together.

Mr Duncan referred to Mrs Miller's comments and clarified that as Boddam Slaughterhouse was still trading, the business was not in market failure. He explained that the down turn in the financial statement had been due to reduced sales from a butcher van, and one of their shops had ceased trading.

Mrs B L Fullerton said that there was a need to build on the existing facilities and to support the local abattoirs, however that should not preclude the Council from looking at proposals for a new slaughterhouse at the marts. She said that there was a need for cutting, packaging and added value facilities to do the whole industry justice, especially when £2.4m had already been committed for such a facility. Mrs Fullerton said she agreed that it would take some years to construct a case to Europe, and therefore the existing facilities had to be supported and that the industry had to work together. Mrs Fullerton said that she would support the recommendations in the report, and that the Council should construct an argument for an exemption, and to include facilities for adding value to products in making the case.

Mr F A Robertson provided some background on proposals for a new slaughterhouse in Shetland. He agreed that it would take some time to get any response from Europe, and suggested that the minimum support should be given to the two existing facilities, as to provide too much support could jeopardise any proposal for a new abattoir at the marts.

Mr W H Manson agreed that some assistance should be given to the two existing slaughterhouses in the interim period, and said that the Council should be willing to assist in the construction of an adequate fit for purpose abattoir for Shetland. Mr Manson referred to the motion proposed by Mrs Miller, and proposed a further amendment to Recommendation 11.2, "I further recommend that the Development Committee express a continual willingness to construct a fit for purpose Abattoir and associated facilities within funds already earmarked for that purpose and instruct the Head of Economic Development, the Chief Executive, and AB Associates Ltd., to construct a case for an exemption". Mrs Miller agreed to the addition to her motion, and Mr Manson seconded.

Mr A S Wishart referred to the motion on the table, and asked that Mrs Miller consider accepting an additional recommendation into her motion. He proposed a Recommendation 11.3 "That financial support be provided on a monthly basis to both operators until a response is received from Europe, support to be calculated and a report to be submitted to the Council meeting in July". In receiving the consent of her seconder, Mrs Miller agreed to incorporate Mr Wishart's additional recommendation into her motion.

Ms Baisley said that small agricultural operators need to know that they can get their stock slaughtered in Shetland, and need support and confidence now, and to wait until an exemption was not an option. Mr A T Doull said that he agreed that there was a need for a new facility, however there was a need to provide support in the interim.

Mr Smith proposed that the Committee move on to discuss the next two reports on the agenda, and to make a decision on each of the proposals. The Chairperson commented that the decision on this item was very much relevant to the further two reports.

Dr Wills questioned the competency of the motion, however the Chairperson ruled that it was competent.

Mr R C Nickerson moved as an amendment that the Committee approve the recommendations in the report. Mrs I J Hawkins seconded.

After summing up, voting took place by a show of hands and the result was as follows:

Amendment (Mr R C Nickerson)	10
Motion (Mrs C H J Miller)	9

64/09

Pure Shetland Lamb Ltd

Application for Grant Assistance to Upgrade Boddam Slaughterhouse

The Committee considered a report by the Development Officer (Appendix 2).

Mr A G L Duncan said it was important for the agricultural industry in Shetland to support and approve both slaughterhouses as it could take years for a new abattoir to be built. He said that the private companies had been prepared to look to the future, and to work hard for the industry. It was important to have a slaughterhouse in the south mainland, and also for SACL to have a slaughterhouse in the central mainland. Mr Duncan reported that the Smith family had put a lot of work into preparing the report, and into marketing with research into Europe to find sales to benefit the industry. Mr Duncan moved that the Committee approve the recommendations in the report. Mr Duncan added that the business was waiting for a decision on the report today, to allow them to proceed to purchase essential equipment to keep the business in operation. Ms L F Baisley seconded.

Mrs C H J Miller said that her interpretation was that there was an opportunity for enhanced de minimis to Pure Shetland Lamb Limited to make a business plan to fit. Mrs Miller referred Members to Appendix 3, to the key figures and summary analysis of Pure Shetland Lamb Ltd. and noted that the plan was based on a proposal for 18,500 lambs and ewes in 2009/10, however she reported that from Meat and Hygiene Service figures 257 lambs and ewes had been slaughtered from April 2008 – January 2009, and she questioned this significant increase in the business plan. Mrs Miller also questioned Pure Shetland Lamb Ltd's proposals for 2009/10, being that they would get planning permission for upgrading the slaughterhouse, build the extension, slaughter the animals, and get the contracts. She also noted that the company owed £21,000 to its creditors, and advised that she was aware of people in Bressay who were still owed money from 2006.

Mrs Miller said that the proposal was not logical, and she considered that the Council should not support the business until such time as an independent financial assessment of the plan was undertaken, and audited accounts provided. Mrs Miller moved as an amendment that the Committee defer a decision until audited accounts are provided for the last 3 years, and an independent assessment of the business plan carried out, to be completed within one cycle of meetings.

Dr J W G Wills said that both local businesses should be supported, but he agreed that money should not be paid out until Audited Accounts were provided. He suggested an additional condition that after producing their Audited Accounts, the applicant would be required to pay all outstanding creditors.

Ms L F Baisley said that she had known the applicant for a number of years as a customer of the mobile meat van, and they were excellent salesmen and provided excellent quality meat. She explained that the problem was with the business not paying the people who supply the lambs, however she noted the assurance outlined in Section 7.7 of the report, that there would be a factoring agreement which would alleviate that problem.

In response to questions from Mr A S Wishart regarding Section 5.5 of the report, the Head of Economic Development clarified that Pure Shetland Lamb Ltd. fulfils the criteria provided by the EC as being a company that had entered into difficulty, because it fulfils the criteria under its domestic law for being the subject of collective insolvency proceedings. This is not to say that insolvency proceedings were active.

In response to a question from Mr Wishart regarding the £21,000 of outstanding creditors, the Head of Economic Development explained that a significant proportion were up to 3 years old, however the Company has agreed to settle all debts before receiving any grant.

Mr Wishart commented that from the declared turnover it would appear that the Company was in decline before July 2008, and he questioned whether that could have been the result of global recession. The Head of Economic Development said that the company was profitable prior to July 2008, but entered into difficulty after July 2008, and therefore fulfilled the EC criteria, but it was difficult to justify specifically how the global downturn had impacted on the company.

In response to further questions, the Head of Economic Development advised that an independent valuation of the machinery had not been carried out, and neither had any plans for the extension been made available.

Mr A S Wishart seconded Mrs Miller's amendment.

Mr Duncan reminded Members that at this time of year only a small number of lambs are slaughtered in Shetland, and the busy periods for slaughtering lambs were from mid July to December. Mr Duncan reported that should the recommendations be approved, the Company proposes to apply for a licence to slaughter cattle over 40 months and therefore producers would not have to go outside Shetland to slaughter their cattle.

Mr Duncan said that should the Committee agree to defer this application this would cause a great deal of stress for the Company, as they require a large amount of money to buy the necessary equipment. He added that Pure Shetland Lamb

Ltd. had not been asked to provide Audited Accounts, and that they had complied with all the requests from the EDU.

In response to a question from Mr Nickerson, the Head of Economic Development advised that the sum of £50,000 was not a current valuation for the existing slaughterhouse, but was from a valuation carried out 3 years ago when the Development Trust had bought the building.

Mr J Budge noted that the main focus of the Company was on lamb, and he suggested that the business plan should include further processing of beef. Mr Budge questioned whether the Company had received commitment from producers to supply the number of lambs predicted in their business plan, and he agreed that the application should be deferred until further information is provided. The Head of Economic Development clarified that from the Company's cash flow for year 1, it was proposed that 150 head of cattle would be slaughtered.

Mr A T Doull referred to the £21,000 owing to creditors, and questioned whether more creditors would come forward should further enquiries be made in Shetland, and he questioned whether this should be made a condition of the grant.

In response to questions regarding the requirement for companies to provide Audited Accounts, the Head of Economic Development explained that when a business has a turnover of less than £6m it is not necessary for Audited Accounts to be provided.

In response to a suggestion from Mr I J Hawkins, the Head of Economic Development clarified that a condition was already in place whereby the operations of the Company would be monitored.

Mr W H Manson said he was aware of people that had not been paid by the business, and suggested that there was a need for Condition 2(e) of the letter of offer to be strengthened. Mr Manson said that the business plan was not fully compliant, and that there was a need for the Company to win supplier confidence, particularly with another business competing for the same area of supply.

Mr Duncan said that there required to be clear definition between debt relating to Mr Smith, Senior, and debt relating to Pure Shetland Lamb Ltd. Mr Duncan said that in his opinion two abattoirs would be good for Shetland, as it would allow competition, and prevent a monopoly situation.

Mr Smith said that he understood Mrs Miller's concerns to ask for an improved business plan and Audited Accounts, however he enquired whether Pure Shetland Lamb Ltd would be assisted similarly and fairly to the assistance given to SLMG. Mrs Hawkins reminded Members that it was not a requirement of the EDU to request Audited Accounts when turnover was less than £6m, however the Head of Economic Development said that on his occasion Members could insist that the Company provides Audited Accounts. Mrs B L Fullerton was of the opinion that the EDU should be consistent when requesting companies for Audited Accounts, and that should a request be made for Pure Shetland Lamb Ltd. to provide Audited Accounts, then all companies should be asked to provide Audited Accounts. After some further discussion, Mrs Fullerton said that this application had to be considered under current Policy, and that Pure Shetland Lamb Ltd. should not be requested to provide Audited Accounts at this point.

During summing up, Mrs Miller agreed to withdraw from her amendment the request that Pure Shetland Lamb Ltd. provide their Audited Accounts, however she stated that there was a requirement for an independent assessment to be carried out, and therefore the decision should be deferred.

Voting took place by a show of hands, and the result was as follows:

Amendment (Mrs C H J Miller)	6
Motion (Mr A G L Duncan)	11

65/09

Shetland Livestock Marketing Group – Business Review

The Committee considered a report by the Head of Economic Development (Appendix 3).

Mr A T J Cooper moved that the Committee continue to provide assistance to SLMG to include marketing, on the condition that SLMG confirms that the aid can be delivered in a state aid compliant fashion; that the Economic Development Unit funds repairs and enhancements to the Marts in consultation with SLAP, which will not increase the rental, and which may have to be revisited if SLAP cannot comply; and, that Shetland Abattoir Co-operative Limited be encouraged to come as soon as possible with a plan to enhance and upgrade their facilities.

Mrs C H J Miller seconded.

Mr C L Smith referred to the earlier decisions to provide funding to SLMG to produce a business review and business plan, however he noted that although the 2009 projections had been included, there was no reference or clarification on the 2008 figures. The Head of Economic Development clarified that SLMG's Audited Accounts had been provided and no concerns had been raised.

Mr R C Nickerson congratulated the author of the Business Review, which he said included useful information which went beyond a business review for the SLMG, to provide information relevant to the whole agricultural sector, and could feed into the Agricultural Strategy. Mr Nickerson said that it was unfortunate that a Business Plan had not been presented to the meeting. Mr Nickerson said that there was a need for two abattoirs in Shetland, but that the abattoir facilities and marts had to be considered separately as they were crucial to the industry. Mr Nickerson questioned whether there was any means to bring a report back to Committee as soon as possible, with proposals that are State Aid compliant.

During the discussion, Mr W H Manson said that the proposals included in the Review appeared to support the entire agricultural sector in Shetland. He said that there were elements in the Review that could readily be transferred into a Business Plan and commented that the figures were much more modest and therefore the proposals should be much more readily achievable. Mr Manson said that in the past there has been some criticism that SLMG only had 278 members, however he explained that there were also another 200 agriculturalists in Shetland that make use of SLMG's facilities.

Mr A G L Duncan advised of a concern following a discussion at Development Committee in April, where it had been agreed that he could view SLMG's financial projections at the EDU office. Mr Duncan explained that although he had visited the office on four separate occasions, and in some cases with other Members of the Council, he had still not had sight of the figures. Mr Duncan explained that he

had been informed that the information could be viewed at SLMG's office at the Staneyhill, however he considered this to be discourteous, and said that the figures should be made available at the EDU. Mrs C H J Miller explained that the SLMG had been unwilling to release the information as it contained details of SLMG's suppliers and there could therefore be a breach of confidence. Mrs Miller advised that she had accepted SLMG's invitation to view the documents at SLMG's office, and reported that she had no concerns with the information provided. Mrs I J Hawkins suggested that the information could also be made available in confidence at the EDU office, and said she hoped that Members would get sight of the information before making a final decision.

Dr J W G Wills referred to Recommendation 9.2, and said that as the Committee had provided the funds to carry out the business review, he had concerns that Cllr Duncan had not been provided with the information he had requested.

In response to a question from Dr Wills as to what had been the delay with providing the complete Business Plan for SLMG, the Head of Economic Development explained that an overview of what would be required for both the marts and slaughtering facilities had been provided, however to comply with State Aid legislation separate applications would be needed, and therefore more work was required to get a sustainable business plan for each company.

In response to a question, the Head of Economic Development advised that it could take several weeks for SLMG and SACL to get their plans prepared, and that a special meeting could be called to address the proposals. Some Members expressed concern that the special meeting could fall within the summer recess, and near to the sale season.

Ms L F Baisley commented that SLMG involves all sectors of the agricultural community and suggested that more information should be provided on the organisational structure that is proposed.

In referring to Section 4.3 of the report, Mr Nickerson said that he would like some assurance that a full sale season would be provided at the marts. Mr Cooper explained that if SLMG could provide a proposal that is State Aid compliant the operations at the marts should not be an issue.

In response to a question from Mr C L Smith, the Head of Economic Development advised that SLMG had provided the EDU with weekly cash flows and the SDT Financial Controller had been checking expenditure and was satisfied with the information provided.

66/09

Shetland Infectious Salmon Anaemia (ISA) Recovery Scheme

The Committee considered a report by the Economic Development Officer (Appendix 4).

(Dr J W G Wills declared an interest as his relative had an involvement in the Shetland Aquaculture Association).

[Mr A J Cluness left the meeting].

After hearing the Head of Economic Development provide some information on the potential benefits to the NAFC Marine Centre from taking part in the projects

through this scheme, Mr A T J Cooper moved that the Committee approve the recommendation in the report. Mrs B L Fullerton seconded.

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J G Simpson
CHAIRPERSON