



## **REPORT**

**To: Development Committee**

**27 January 2011**

**From: Head of Economic Development**

**Report No: DV005-F**  
**Public Activity Report**  
**November and December 2010**

### **1.0 Introduction**

- 1.1 This activity report is being presented to Development Committee as a means of communicating with Members the current project and potential business activities being led by the staff in the Economic Development Unit (EDU).

Following a request at the Development Committee on 22 January 2009 (Min Ref 16/09), the Activity Report has been divided into two separate reports – one for public viewing which contains general information which can be considered in public, and one for non-public viewing which will contain sensitive information. This is the public version.

- 1.2 The report gives updates in the following areas:

- Ongoing project work
- Government initiatives
- September and October grant awards (Appendix 1)

### **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 aims contained in the Economic Development Policy Statement (2007-2011).

### **3.0 Risk Management**

- 3.1 This is an information report so there are no risks associated with the recommendations.

## **4.0 Ongoing Projects**

### **4.1 Shetland Showcase at Tall Ships 2011**

A Shetland showcase element to the Tall Ships Race will be organised by EDU Marketing staff. The showcase will comprise, in the main, a craft village along the foot of Fort Charlotte at Commercial Street, populated by businesses with quality-tested products. The initial steps to progress this have been made this month. Staff will be working very closely with Shetland 2011 Ltd to ensure that the benefits from this are maximised.

### **4.2 Johnsmaas Foy**

The report into the future options for the Johnsmaas Foy has been finalised and will be presented to the Development Committee on 03 March 2011. There is no provision for the Johnsmaas Foy in the 2011/12 budget estimates in lieu of the Tall Ships Races visiting Lerwick in July.

### **4.3 PromoteShetland**

EDU Marketing staff have continued to be impressed with the success of the PromoteShetland initiative to date. A Shetland Marketing Strategy which PromoteShetland has compiled following lengthy consultation has almost been completed. The final draft of this document, along with a progress review and operational plan for 2011/12 will be reported at the Development Committee on 3rd March. The contract with Shetland Amenity Trust for provision of the service expires in September 2011 and potential extension of this is currently being investigated. It is clear given the plans for the Council's Communications Unit that there are a number of areas of overlap and EDU staff are already working closely with Peter Peterson and Tom Morton on joint initiatives. This needs to be given further investigation in order to work towards pulling together common aspects of the services.

### **4.4 C2 Project**

EDU Marketing staff are currently working on getting a Shetland project recognised under the C2 Project. This is an initiative which is administered by Scotland's Food and Drink and jointly funded by the Scottish Government and European Union. It is delivered as a strategic activity of Scotland's Food & Drink. The initiative can help businesses to access new markets, develop new food and drink products and improve supply chains through encouraging businesses to work together in partnership. The value for Shetland is that this could potentially help address issues relating to the economics and logistics of transportation of relatively smaller quantities of food and drink products from Shetland to suitable suppliers on the mainland e.g. high class delis, top hotels and restaurants. It is relatively easy to get goods from Shetland to the Scottish mainland overnight to Aberdeen or directly to Coatbridge with associated freezer and chill capacity, however research has shown that the logistics after that

become an issue regards quantities being shipped in connection with cost. The initiative could help to identify suppliers and make them more aware of the qualities, range and abilities of Shetland food businesses and identify a cost-effective solution to shipping smaller quantities of goods to mainland customers. Key to success is identification of local food and drink businesses who wish to participate in a potential pilot project.

#### 4.5 All Energy Exhibition and Conference: 18/19 May 2011

Shetland will be represented at this major renewable energy event in May. It will be the first time Shetland has been significantly represented at this event with the aim to show Shetland as an attractive location in which to base a renewable energy project - an area in which there is much potential for Shetland. EDU Marketing staff are jointly working with HIE staff on coordinating the initiative along with public and private partners who will represent their business concerns on the stand at the event. Ultimately the stand will be funded by public and private funds and so represents an excellent partnership project. Currently being represented are: Shetland Islands Council (Ports & Harbours), PURE Energy, Lerwick Port Authority, Delta Marine Ltd, NAFC Marine Centre and Shetland Windpower Ltd. The Shetland presence will occupy a 48m<sup>2</sup> stand within the HIE designated area of the exhibition. Other regions being represented within this space include Orkney and Argyll. PromoteShetland are fully aware of the initiative and will support promotion around this as necessary.

#### 4.6 VisitScotland visit to Shetland

Malcolm Roughead (Chief Executive), Joanna Blanusa (Growth Fund Manager) and Caroline Packman (Head of Digital Services) of VisitScotland visited Shetland as guests of the PromoteShetland Steering Group is scheduled to visit over 24 and 25 January 2011. A Tourism and Culture Panel is scheduled to take place on 24 January which the group will attend. This will provide the opportunity for VisitScotland to outline its plans for the future development of tourism marketing to a key tourism audience in Shetland. Chris Taylor (Head of Food, Drink and Tourism with Highlands and Islands Enterprise) was also invited to take part in the meeting and delivered a presentation on growing tourism business across the Highlands and Islands region. Andy Steven will deliver a presentation which outlines PromoteShetland's approach to culture and tourism promotion. The main Tourism and Culture Panel business on the day will discuss the finalised draft of the Shetland Tourism Plan (2011-2014), in which VisitScotland have been involved. This outlines Shetland's strategic and detailed plans to develop the tourism industry in Shetland over the next 4 years and was presented by author Stephen Budd of Highland Business Research. The work leading to the strategy is a good demonstration of partnership working and it was therefore felt important that the Panel be arranged around the visit of VisitScotland senior staff. The VisitScotland team also took in the Up-Helly-Aa celebrations during the visit, seeing first hand a winter event in Shetland which attracts large numbers of visitors to Shetland.

#### 4.7 Agricultural Strategy

AB Associates are now engaged in completing the Strategic Environmental Impact Assessment for the new Agricultural Strategy. The delay on the timetable has largely been caused by the need for AB Associates to complete the more pressing Future of Agricultural Support contract, as detailed in a separate report on this agenda. Regrettably, the completion of Strategic Environmental Assessments, which are now a statutory requirement, needs a specialist input and is a complex process. The Agricultural Strategy should be fully complete by the end of February.

#### 4.8 Scotland's Islands

There have been 11 awards of grant to Shetland related projects in the first round of applications. Western Isles Council, as the lead Council, has issued letters confirming support. The closing date for the second round of applications is 14 February 2011.

#### 4.9 Mareel, Music and Cinema Venue

Cladding is well advanced and the materials are on site to complete the final enclosure of the building. Rainscreen cladding is almost complete. Mechanical and Electrical first fix is being progressed to corridors, rooms and plant rooms. Stairs to three of the five stairwells have been fitted and foyer stair is ready for installation. Plumbing, joinery first fix framing and floor screeding are ongoing. The Principal Contractor has supplied a revised programme and the client has accepted their completion date in spring 2011.

The financial status of the project is within budget and the level of available contingency still stands at over 2% of the works value still to spend.

A site visit to the building was conducted by some of the sounding board members on 7 January 2011. Whilst plasterboard and internal finishings are being applied to the parts of the building which are now wind and watertight, overall the impression was that there was an enormous amount of work that still had to be done to achieve a spring opening date.

#### 4.10 Victor Laurenson & Partners LLP

A loan of £150,000 was approved to the above partnership on 07 January 2011 to assist in the purchase of 2,016 Fixed Quota Allocations (FQAs) of mixed species whitefish quota for use on the MFV Radiant Star, LK71. The loan was approved under the Delegated Authority of the Head of Economic Development under the Whitefish Quota and/or Fishing Vessel Licence Loan Scheme which was approved by the Development Committee on 29 April 2010 (Minute Reference 30/10).

#### 4.11 Shetland Livestock Marketing Group (SLMG)

This project relates to a de minimis grant of up to EUR 500,000 towards the upgrading of the marts building, and marketing activities.

Drawdown of funding to date is £206,109.

It is likely that the company will require that some of the grant funding relating to marketing activities is carried forward to 2011/12 financial year.

#### 4.12 Shetland Abattoir Cooperative Limited (SACL)

This project relates to a de minimis grant of up to EUR 500,000 towards the cost of a new slaughterhouse unit at Staneyhill for cattle processing and the purchase of Laxfirth slaughterhouse for sheep processing.

Drawdown of funding to date is £295,004.

Significant progress has been made and a further site inspection is planned for 21 January 2011. Discussions have taken place with representatives of SACL regarding details of completion, licensing and operation of the facility. There may be a requirement for some of the grant funding which will only be released on achievement of operating licences to be carried forward to 2011/12 financial year. A detailed report will be brought to the next Development Committee in March.

#### 4.13 Pure Shetland Lamb Ltd (PSL)

This project relates to a de minimis grant of up to EUR 500,000 for the development of the Boddam slaughterhouse.

No progress has been reported by the company regarding meeting pre-conditions.

#### 4.14 Sumburgh Head

The Shetland Amenity Trust have confirmed that they have achieved the complete funding package for the £5.4 million project to develop Sumburgh Head Lighthouse, and have levered in more than 70% of the funding from external sources.

The Shetland Development Trust committed £1.5 million to the project.

The Shetland Amenity Trust intend to commence with the project immediately which is planned to take 3 years to complete.

#### 4.15 Total, Laggan & Tormore Gas Plant Development

Total E&P, and Petrofac, the lead contractor on the development of the Shetland Gas Plant for Total E&P's Laggan Tormore project, will be giving presentations to local industry on 19 & 20 January 2011 regarding supply chain opportunities.

Malthus AS, Morrison Construction and ESS, as main sub-contractors to Petrofac for the completion of the accommodation camp, civil engineering works and facilities management respectively, will also provide details of opportunities available with them.

A meeting has also been set up with Shetland skills agencies, colleges, schools representative and Job Centre Plus, to discuss how commitments to local employment and skills development opportunities can be achieved

### **5.0 Government initiatives**

#### 5.1 Business Gateway

121 Business Gateway enquiries have been logged since the beginning of this financial year until 24 December 2010, in the following sectors:-

General Services – 38  
Catering – 6  
Construction – 5  
Accommodation – 7  
Agriculture – 3  
Community Development – 2  
Transport – 2  
Retail – 4  
Fish Processing – 1  
Aquaculture - 5  
Fishing – 4  
Training – 1  
Crafts- 8  
Renewable Energy – 6  
Voluntary Sector – 1  
Tourism – 10  
Fish Sales – 4  
Creative Sector – 6  
Financial – 1  
Manufacturing – 2  
Food and Drink – 4  
Leisure - 1

Fifty-seven of these enquiries related to possible business start-ups. Twenty have been referred to the national business gateway centre, 17 have been referred to Train Shetland for a place on a training course and there have been 60 appointments of business advisers. Fifty-three clients have applied for or are considering applying for

Council assistance and seven were not eligible for support. Two projects have been referred to HIE as a possible high growth expansion, with the prospect of one other.

The Creative Students Support Scheme continues to work well. Twelve students have completed the first business unit delivered through the Business Gateway. It is known that around eight of the participants are now preparing business plans with a view to starting up crafts/textile businesses.

## **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 in relation to the Main Aim of the Economic Development Policy Statement 2007-2011, "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". The Policy Statement was approved by the Development Committee on 24 April 2008 (02/08) and by the Council on 14 May 2008 (55/08).

7.2 In accordance with Section 11.0 of the Council's Scheme of Delegations, the Development Committee has delegated authority to implement decisions within the remit for which the overall objectives have been approved by the Council, in addition to appropriate budget provision, including:

- Economy
- Europe

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

## **8.0 Recommendations**

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

Our Ref: NG/JJ A09  
Date: 20 January 2011

Report No: DV005-F





Fri 7 Jan 2011

**Appendix 1****Grants Awarded Grouped by Scheme**

<b><u>Applicant Project</u></b>	<b><u>Date Granted</u></b>	<b><u>Project Cost</u></b>	<b><u>Amount Awarded</u></b>
<b>Marketing Development Programme</b>			
CROSSAN, VIOLET Develop website to promote self catering flats to visitors to Shetland. Professional photography	02/11/2010	£3,825.00	£1,912.00
GARRIOCK BROS LTD. Development of company e-commerce website to increase export market.	08/12/2010	£19,975.00	£9,987.00
SHETLAND MARKET Printing of business promotional cards. Google Adwords campaign. Banner advert on Shetland News website. Hosting of website.	10/11/2010	£593.00	£296.00
<b>Total Awarded for – Marketing Development Programme</b>		<b>£24,393.00</b>	<b>£12,195.00</b>
<b>Rural Shop Improvement Scheme</b>			
THE MAIL SHOP To re-roofing the rear of the Mail shop over sub-post office and storage area	29/11/2010	£4,045.00	£2,022.00
<b>Total Awarded for Rural Shop Improvement Scheme</b>		<b>£4,045.00</b>	<b>£2,022.00</b>
<b>Discretionary Delegated Scheme (DDS)</b>			
SCOTTISH PELAGIC SUSTAINABILITY GROUP LTD MSC Certification of the West of Scotland Herring Fishery	22/11/2010	£32,575.00	£5,000.00
<b>Total Awarded for DDS</b>		<b>£32,575.00</b>	<b>£5,000.00</b>
<b>Fairer Scotland Fund</b>			
FETLAR DEVELOPMENTS LIMITED Fetlar Developments Ltd. are applying for funding for video-conferencing equipment to allow for remote participation in meetings and conferences.	24/11/2010	£8,447.75	£8,448.00
<b>Total Awarded for Fairer Scotland</b>		<b>£8,447.75</b>	<b>£8,448.00</b>

# Shetland Islands Council

Fri 7 Jan 2011

## Grants Awarded Grouped by Scheme

<u>Applicant Project</u>	<u>Date Granted</u>	<u>Project Cost</u>	<u>Amount Awarded</u>
<b>Shetland Agricultural Business Scheme</b>			
D & H CONTRACTORS Fertiliser/arable crop	11/11/2010	£0.00	£527.50
DUNCAN E J 3 Tonne Fertiliser/sabs	11/11/2010	£0.00	£141.00
FRASER WILLIAM ALAN 4.6 Fertiliser/sabs 2010	25/11/2010	£0.00	£216.20
FRASER, A B Fertiliser	11/11/2010	£0.00	£324.30
FRASER, W D 4.2 Fertiliser/arable crops/heifer	25/11/2010	£0.00	£445.80
GLEBE CROFTING Fertiliser grant	22/12/2010	£0.00	£239.70
HUNTER A & D Heifer rearing	11/11/2010	£0.00	£1,000.00
JOHNSON, A & N Fertiliser grant	09/12/2010	£0.00	£259.70
JOHNSON, C & SJ 1.2 Fertiliser - SABS 2010	09/12/2010	£0.00	£56.40
JOHNSTON, W A 1.2 Fertiliser SABS 2010	09/12/2010	£0.00	£54.00
LESLIE, BRIAN Heifer rearing	11/11/2010	£0.00	£945.00
NICOLSON W Heifer rearing grant	22/12/2010	£0.00	£300.00
NICOLSON, DAVID Lime, fertiliser and heifer rearing grants	22/12/2010	£0.00	£1,275.00
NIVEN DAVID Fertiliser	11/11/2010	£0.00	£88.20
POTTINGER, THELMA 3.6 Tonne Fertiliser	11/11/2010	£0.00	£162.00
ROBERTSON, R L 3 Ton Fertiliser - SABS	22/12/2010	£0.00	£241.00
THOMSON, J M 2.4 Fertiliser 2010/sabs	22/12/2010	£0.00	£117.60
WISHART, LJM & JIM Fertiliser grant	25/11/2010	£0.00	£169.20
<b>Total Awarded for Shetland Agricultural Business Scheme</b>		<b>£0.00</b>	<b>£6,562.60</b>

Shetland Islands Council

Fri 7 Jan 2011

Grants Awarded Grouped by Scheme

<u>Applicant Project</u>	<u>Date Granted</u>	<u>Project Cost</u>	<u>Amount Awarded</u>
<b>Shetland Business Growth Training Scheme</b>			
ARCTIC SECURITY (SHETLAND) LIMITED Shetland Business Growth Training Scheme - Training to become conflict manager instructor and physical intervention instructor to have in-house training and allow business to diversify into providing conflict management training to other organisations.	15/11/2010	£4,566.58	£3,424.93
<b>Total Awarded for DEV - Shetland Business Growth Training Scheme</b>		<b>£4,566.58</b>	<b>£3,424.93</b>
<b>Total Records 25</b>		<b>£74,027.33</b>	<b>£37,652.53</b>





## **REPORT**

**To: Development Committee**

**27 January 2011**

**From: Head of Finance  
Executive Services Department**

**Report No: F-008-F**

**Economic Development Unit Revenue Management Accounts 2010/11  
Period 9 - 1st April 2010 to 31st December 2010**

### **1. Introduction**

- 1.1 The purpose of this report is to provide Members with an overview of the financial position on the Economic Development Unit General Ledger and Reserve Fund revenue management accounts for the first 9 months of 2010/11.
- 1.2 This report will also highlight the position with regard to savings identified and predicted outturn variances.

### **2. Links to Corporate Priorities**

- 2.1 This report links to the Council's corporate priorities, defined in its Corporate Plan, specifically in relation to reviewing financial performance relative to the Council's financial policies.

### **3. Risk Management**

- 3.1 This is an information report so there are no risks associated with the recommendation.

### **4. Background**

- 4.1 The revenue management accounts are presented to the Corporate Management Team on a monthly basis to monitor the Council's overall financial position.
- 4.2 The financial data in this report includes employee costs; operating costs (property, supplies & services, administration, transport and agency payments); transfer payments (grants); and income (fees and charges, grant funding and rents).

- 4.3 All appendices show the annual budget, year to date (YTD) budget, YTD actual and YTD variance. It is the YTD variances, which are referred to within this report. The YTD budget is derived from setting a budget profile, which estimates when spending will occur or income will be received. The YTD variance shows how actual activity has varied from the YTD budget.

## **5. Financial position on the General Ledger (inc Support/Recharged)**

- 5.1 Appendix 1 shows the position by service area and subjective category. There is an overall underspend of £18k against YTD budgets to period 9 on support costs which relates to minor underspending on operating costs.

- 5.2 Appendix 2 shows the position by cost centre.

## **6. Financial position on the Reserve Fund**

- 6.1 Appendix 3 shows the position by service area and subjective category on the Reserve Fund. There is an underspend of £587k against YTD budgets set. This is mainly due to Heritage Tourism discretionary grants where large projects were delayed on external funding confirmation, such as Scalloway Museum, Sandsayre Pier and Brough Lodge; and delays on Economic Infrastructure Projects, namely, the new abattoir for Shetland Abattoir Co-operative Limited and refurbishment of the Marts for Shetland Livestock Marketing Group.

- 6.2 Appendix 4 shows the data referred to in paragraph 6.1 by cost centre.

- 6.3 There is currently £4.6m of outstanding commitments on the discretionary grants budget which has reduced from £6.5m reported at the last Committee. The reason for the extent of outstanding commitments is due primarily to grants being subject to achievement of other external match funding and time taken to meet preconditions or other project delays.

- 6.4 An internal mechanism was put in place for 2010/11 to enable up to 120% commitment on certain budget centres, as reported to Committee in March (Min Ref 20/10).

## **7. Financial Implications**

- 7.1 The General Ledger is underspent against the year to date budget by £18k. The Reserve Fund is underspent against the year to date budget by £587k. These underspends are due to difficulties in budget profiling and are not an indication of savings.

- 7.2 The Head of Economic Development has estimated an outturn underspend on discretionary grants in 2010/11 of approximately £3m. The majority of this underspend is committed to projects which have not yet been finalised and will be required during the next financial year.

- 7.2 As reported in the Head of Finance's Estimates Report in February 2010 (Min Ref 15/10), in order to meet the financial policy target of a draw on Reserves of £2m on the General Fund revenue budget there is an overall budget saving requirement of £9.9m across the Council for 2010/11.

- 7.3 To date a total savings contribution of £94k has been committed by the Economic Development Unit to the corporate budget saving requirement. Of the £94k, £60k is ongoing savings and £34k is one-off savings for 2010/11.

## **8. Policy & Delegated Authority**

- 8.1 The Development Committee has delegated authority to act on all matters within its remit for which the Council has approved the overall objectives and budget, in accordance with Section 11 of the Council's Scheme of Delegations.

## **9. Recommendation**

- 9.1 I recommend that the Development Committee note the report.

Report No: F-008-F  
Ref: GJ/HKT/BR

Date: 20 January 2011





**ECONOMIC DEVELOPMENT UNIT MANAGEMENT INFORMATION 2010/11 - PERIOD 9** **1st April 2010 to 31st December 2010**

<u>Revenue Expenditure by Service</u>	Annual Budget	Year to Date Budget	Year to Date Actual	Year to Date Variance (Adverse)/Favourable
	£	£	£	£
Administration	386,198	324,718	314,454	10,264
Business Development	379,972	306,283	297,767	8,516
Marketing	113,223	90,084	90,390	-306
<b>Economic Development Unit (total)</b>	<b>879,393</b>	<b>721,085</b>	<b>702,611</b>	<b>18,474</b>

<u>Revenue Expenditure by Subjective</u>	Annual Budget	Year to Date Budget	Year to Date Actual	Year to Date Variance (Adverse)/Favourable
	£	£	£	£
Basic Pay	593,065	444,773	452,256	(7,483)
Overtime	20,000	15,000	5,983	9,017
Other Employee Costs	224,406	167,289	185,487	(18,198)
<b>Employee Costs (sub total)</b>	<b>837,471</b>	<b>627,062</b>	<b>643,726</b>	<b>(16,664)</b>
Travel & Subsistence	56,500	42,375	31,806	10,569
Property Costs	40,921	638	367	271
Other Operating Costs	77,042	51,175	27,743	23,432
<b>Operating Costs (sub total)</b>	<b>174,463</b>	<b>94,188</b>	<b>59,916</b>	<b>34,272</b>

<b>Transfer Payments (sub total)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
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<b>Income (sub total)</b>	<b>-132,541</b>	<b>-165</b>	<b>-1,031</b>	<b>866</b>
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<b>TOTAL</b>	<b>879,393</b>	<b>721,085</b>	<b>702,611</b>	<b>18,474</b>
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**GENERAL FUND (including Support and Recharged Ledgers)**  
**By Cost Centre**

**F-008 APPENDIX 2**

<b>ECONOMIC DEVELOPMENT UNIT 2010/11 - PERIOD 9</b>	<b>1st April 2010 to 31st December 2010</b>
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<u>Description</u>	Annual Budget	Year to Date Budget	Year to Date Actual	Year to Date Variance (Adverse)/Favourable
	£	£	£	£
<b>Head of Service</b>	<b>386,198</b>	<b>324,718</b>	<b>314,454</b>	<b>10,264</b>
SRD0000 EDU Mgt & Administration	323,559	287,399	286,374	1,025
SRD0001 EDU Recruitment Expenses	8,500	6,375	0	6,375
SRD0002 Head of Economic Development	54,139	30,944	28,080	2,864
<b>Business Development</b>	<b>379,972</b>	<b>306,283</b>	<b>297,767</b>	<b>8,516</b>
SRD1000 Head of Business Development	125,166	106,148	103,689	2,459
SRD1010 Business Technical Support	254,806	200,135	194,078	6,057
<b>Marketing</b>	<b>113,223</b>	<b>90,084</b>	<b>90,390</b>	<b>-306</b>
SRD5000 Marketing	113,223	90,084	90,390	(306)
<b>TOTAL DEVELOPMENT</b>	<b>879,393</b>	<b>721,085</b>	<b>702,611</b>	<b>18,474</b>

**ECONOMIC DEVELOPMENT UNIT MANAGEMENT INFORMATION 2010/11 - PERIOD 9** **1st April 2010 to 31st December 2010**

<u>Revenue Expenditure by Service</u>	Annual Budget	Year to Date Budget	Year to Date Actual	Year to Date Variance (Adverse)/Favourable
	£	£	£	£
Fisheries	4,253,792	2,532,441	2,434,360	98,081
Agriculture	485,000	272,793	223,690	49,103
Other	3,514,156	1,687,177	1,625,366	61,811
Tourism	2,000,617	1,379,615	1,001,615	378,000
<b>Economic Development Unit (total)</b>	<b>10,253,565</b>	<b>5,872,026</b>	<b>5,285,031</b>	<b>586,995</b>

<u>Revenue Expenditure by Subjective</u>	Annual Budget	Year to Date Budget	Year to Date Actual	Year to Date Variance (Adverse)/Favourable
	£	£	£	£
Basic Pay	101,194	76,757	83,297	(6,540)
Overtime	0	0	1,375	(1,375)
Other Employee Costs	31,454	23,891	25,960	(2,069)
<b>Employee Costs (sub total)</b>	<b>132,648</b>	<b>100,648</b>	<b>110,632</b>	<b>(9,984)</b>
Travel & Subsistence	19,609	18,666	51,316	(32,650)
Property Costs	19,235	15,267	33,806	(18,539)
Other Operating Costs	866,883	744,557	868,743	(124,186)
<b>Operating Costs (sub total)</b>	<b>905,727</b>	<b>778,490</b>	<b>953,865</b>	<b>(175,375)</b>
<b>Transfer Payments (sub total)</b>	<b>9,413,242</b>	<b>5,189,565</b>	<b>4,451,950</b>	<b>737,615</b>
<b>Income (sub total)</b>	<b>(198,052)</b>	<b>(196,677)</b>	<b>(231,416)</b>	<b>34,739</b>
<b>TOTAL</b>	<b>10,253,565</b>	<b>5,872,026</b>	<b>5,285,031</b>	<b>586,995</b>

## ECONOMIC DEVELOPMENT UNIT MANAGEMENT INFORMATION 2010/11 - PERIOD 9 1st April 2010 to 31st December 2010

Description		Annual Budget	Year to Date Budget	Year to Date Actual	Year to Date Variance (Adverse)/Favourable
		£	£	£	£
RRD2104	S.H.O.A.L.	1,000	750	0	750
RRD2120	Fisheries General Assistance	105,000	52,500	34,546	17,954
RRD2121	North Atlantic Fisheries Coll	2,443,711	1,709,291	1,640,540	68,751
RRD2122	Shetland Seafood Quality Control	233,751	152,857	152,857	0
RRD2123	Shet Shellfish Management Org	43,888	30,278	30,278	0
RRD2201	Mentoring Programme	4,000	3,000	0	3,000
RRD2203	Fisheries&Aquaculture Lending	1,320,000	542,500	542,500	0
RRD2204	European Fisheries Match Fundi	102,442	41,265	33,639	7,626
<b>Fisheries</b>		<b>4,253,792</b>	<b>2,532,441</b>	<b>2,434,360</b>	<b>98,081</b>
RRD1129	Livestock Health Scheme	100,000	75,000	45,755	29,245
RRD1133	Agriculture General Assistance	115,000	62,095	66,586	(4,491)
RRD1136	Agriculture Contractors Scheme	20,000	15,000	7,250	7,750
RRD1137	Shetland Rural Dev Scheme	50,000	22,161	17,994	4,167
RRD1138	Shet Agric Business Scheme	100,000	98,537	86,105	12,432
RRD1150	Agricultural Loans	100,000	0	0	0
<b>Agriculture</b>		<b>485,000</b>	<b>272,793</b>	<b>223,690</b>	<b>49,103</b>
RRD1500	Other Research	60,000	40,618	39,873	745
RRD1502	Publications	2,000	1,500	(114)	1,614
RRD1515	Shetland Business Growth Scheme	50,000	(1)	158	(159)
RRD1520	Other General Assistance	89,489	95,454	95,454	0
RRD1523	Rural Shop Improvement	60,000	28,553	23,553	5,000
RRD1526	Rnew Energy Proj	90,000	63,986	41,408	22,578
RRD1527	Business Energy Efficiency	100,000	19,154	11,491	7,663
RRD1528	Foula Electricity	80,000	5,591	5,591	0
RRD1530	Economic Infrastructure Projec	1,194,375	442,734	361,800	80,934
RRD1532	Architectural Heritage	250,000	250,000	250,000	0
RRD1533	Fairer Scotland Fund	0	(22,325)	(6,622)	(15,703)
RRD1534	Scotland's Islands	30,000	12,000	0	12,000
RRD1540	New Manufacturing-New Service	200,000	0	0	0
RRD1541	Food & Drink Projects	150,000	56,250	0	56,250
RRD1545	Textiles	50,000	50,000	55,225	(5,225)
RRD1550	Broadband Services	0	0	11,390	(11,390)
RRD1551	Pop Set up Highspeed data link	140,000	70,162	88,605	(18,443)
RRD1552	Mareel	418,292	337,792	355,672	(17,880)
RRD1553	Creative Industry Development	20,000	15,000	12,099	2,901
RRD1560	Community Enterprise Schemes	30,000		5,000	(5,000)
RRD1561	Retain Active Rural Population	30,000	0	0	0
RRD1562	Engage with Learning Centres	70,000	0	0	0
RRD1563	COPE	175,000	175,000	175,000	0
RRD1564	Childcare	100,000	34,714	35,226	(512)
RRD1800	Leader	(3,670)	(3,670)	1,391	(5,061)
RRD1801	Convergence	3,670	2,752	(5,773)	8,525
RRD1810	Business Gateway	0	0	61,741	(61,741)
RRD1910	Decommissioning Projects	75,000	0	0	0
RRD6010	Investment Management	50,000	11,913	7,198	4,715
<b>Other</b>		<b>3,514,156</b>	<b>1,687,177</b>	<b>1,625,366</b>	<b>61,811</b>
RRD1620	Tourism Financial Assistance	50,000	30,766	25,177	5,589
RRD1621	Tourism Infrastructure	75,000	0	0	0
RRD1630	Tourism General	20,000	15,000	14,584	416
RRD1631	Heritage Tourism	1,008,452	552,736	131,681	421,055
RRD5005	MDP	38,000	28,500	42,100	(13,600)
RRD5010	Promote Shetland	363,000	353,250	353,250	0
RRD5013	Event Management	0	0	0	0
RRD5014	Film Support	23,371	14,261	14,261	0
RRD5031	Shetland Promotional Costs	85,175	66,613	65,617	996
RRD5039	Flavour of Shetland	76,655	75,620	82,704	(7,084)
RRD5041	Food Festival	40,500	40,932	62,362	(21,430)
RRD5042	Tall Ships	154,391	144,766	146,569	(1,803)
RRD5043	Hamefarin	66,073	57,171	63,310	(6,139)
<b>Tourism</b>		<b>2,000,617</b>	<b>1,379,615</b>	<b>1,001,615</b>	<b>378,000</b>
<b>TOTAL ECONOMIC DEVELOPMENT UNIT</b>		<b>10,253,565</b>	<b>5,872,026</b>	<b>5,285,031</b>	<b>586,995</b>



## **REPORT**

**To: Development Committee**

**27 January 2011**

**From: European Project Manager**

**REPORT NO: DV008-F  
CONSULTATION RESPONSE: CONCLUSIONS OF THE FIFTH REPORT ON  
ECONOMIC, SOCIAL AND TERRITORIAL COHESION: THE FUTURE OF  
COHESION POLICY**

### **1.0 Introduction**

- 1.1 The purpose of this report is seek approval of a Council response to the European Commission's consultation on the Fifth Report on Economic, Social and Territorial Cohesion. A suggested response from the Council is attached at Appendix 1.

### **2.0 Link to Corporate Priorities**

- 2.1 Maintaining and enhancing our links with Europe is essential to improve economic opportunities in Shetland and help deliver on the actions identified within Shetland Islands Council's Corporate Plan 2010-2012 to maintain a sustainable economy.

### **3.0 Risk Management**

- 3.1 There is a risk that the outcome of the consultation and future EU Cohesion Policy does not progress the issues of importance for the Highlands & Islands. However, these issues have been recognised in the consultation document and feature in the written response from the Council and will also be reinforced by the Council through its other networking activity in Scotland and the EU and with regional partners.

## **4.0 Background**

- 4.1 EU Cohesion Policy is aimed at reducing the socio-economic disparities across regions and impacts directly on structural funds and other funding streams. European funding is delivered in seven year tranches with the next period running from 2014-2020. The Commission has given a clear message that future cohesion funding must target the overall objectives for the EU which were set out in the Europe 2020 document (EU2020), published in 2010. EU2020 aims to achieve smart, sustainable and inclusive growth and promotes the need for innovation, employment and social inclusion, and a strong response to environmental challenges and climate change. In the run up to 2014, there will be much debate on the interpretation and scope of the EU2020 objectives and how the budget will be allocated across the priorities and Member States.
- 4.2 Previous cohesion reports have set out proposals which the Commission believe will deliver cohesive economic development across Europe. However, this time the report has been used to launch a period of reflection in Europe and forms the basis of a consultation with relevant stakeholders on how to deliver the objectives of EU2020. The consultation is open until 31 January 2011 and the European Commission is expected to launch legislative proposals in Summer 2011.

## **5.0 The Fifth Report on Economic, Social and Territorial Cohesion**

- 5.1 The European Commission's publication of the Fifth Report on economic, social and territorial cohesion (referred to as the "Cohesion Report") on 10 November provides an update on the progress made towards achieving cohesion across the EU and how the policies of Member States and the Community have contributed towards it. It also marks the start of the debate on the future of regional policy and the funding programmes that will deliver it.
- 5.2 The Cohesion Report is lengthy at 300 pages. The main points to emerge from the report and the consultation document accompanying it focus on what has been achieved so far, situation and trends, proposed policy alignment, recognition of regional diversity, and future delivery of programmes. The key points are summarised below:

### Achievements to Date:

- Cohesion policy has made a significant contribution to spreading growth and prosperity across the EU, while reducing economic, social and territorial disparities.
- More developed regions are more competitive, eg because they are more innovative, are better trained, have higher rates of employment, and have better infrastructure.
- Well-being and life satisfaction are strongly linked to higher household income in the less developed parts of the EU, but not in the more developed regions.

- In the Highlands and Islands between 2000-2006, Cohesion Policy created 7,135 and safeguarded 10,578 jobs, and assisted 7,771 businesses.

#### Future Cohesion Policy:

- Future Cohesion Policy will have full geographical coverage distinguishing between: less developed regions, more developed regions and transition regions (in the current programme period, the H&I's is in this category).
- Funding to remain concentrated in the less developed regions.
- A focus on an "ambitious" urban agenda.
- Concentration on fewer priorities, with regions and regional development contributing significantly to EU2020 goals.
- Development and investment partnership contracts between the EU and member states to guide the development of regional programmes.
- Improved coordination between EU policies.

#### Regional diversity:

- The strong diversity among EU regions (eg differences in characteristics, opportunities and needs) needs to be taken into account meaning a one-size-fits-all approach to policy is no longer appropriate.
- The need to address the development needs of regions with specific geographic features - mountains, islands, sparsely populated areas (which should include the Highlands & Islands).
- Increasing regional stakeholder involvement allowing programmes to reflect local needs and opportunities.
- Less developed regions should have more flexibility in the types of actions they can fund compared to more developed regions.

#### Proposals for the funding and delivery of programmes

- A "fair" transitional funding mechanism for regions with a GDP above 75% and below the EU average (which may apply to the Highlands & Islands).
- Simplified management and the use of partnership agreements to deliver funds locally.
- Greater use of revolving funds (such as venture capital and loan funds) as opposed to grants.
- Reducing and simplifying the administrative delivery of projects and programmes with a greater focus on performance and results.

## **6.0 Financial Implications**

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

## **7.0 Policy & Delegated Authority**

- 7.1 This report is relevant to three of the overall aims within the Economic Development Policy Statement 2007-2011 which was approved by the Development Committee on 24 April 2008 (02/08) and by the Council on 14 May 2008 (55/08). The relevant aims are: encourage enterprise and sustainable growth; expand knowledge and build skills; and improve access and extend opportunities.
- 7.2 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:
- Economic Strategy
  - Europe
- 7.3 As the subject of this report is covered by existing policy the Development Committee does have delegated authority to make a decision.

## **8.0 Conclusion**

- 8.1 EU Cohesion Policy is aimed at reducing the socio-economic disparities between regions so a favourable outcome to the consultation would see continuation of European Structural Funds for the Highlands & Islands.
- 8.2 To date, Shetland has been fairly successful in securing European Structural Funds and the Council would wish this to continue, therefore it is important to respond to the consultation process.
- 8.3 Shetland Islands Council will also present its views as part of a consultation response from the Highlands & Islands European Partnership and through its networking activity in Scotland and the EU and other regional partners.

## **9.0 Recommendation**

- 9.1 Members are asked to approve the consultation response attached at Appendix 1.

Our Ref: SJS/R4/10/6  
Date: 19 January 2011

Report No: DV008-F



**Conclusions of the Fifth Report on Economic, Social and Territorial Cohesion: the Future of Cohesion Policy**

**Consultation Response from Shetland Islands Council**

Introduction

Shetland Islands Council welcomes the launch of the European Commission's Fifth Report on economic, social and territorial cohesion and in particular the consultative approach adopted by the Commission for the post-2014 programming period. The Council is pleased to note that the Commission believes cohesion policy has a continuing role in reducing disparities between EU regions. It welcomes the general direction and content of the consultation paper as it reflects, in positive terms, many issues of importance to the Shetland Islands which is part of the Highlands and Islands structural funds programming area. These include:

- Cohesion policy being delivered on a territorial basis.
- A recognition of the need to address territorial cohesion to take account of regions with specific geographic features - mountains, islands, and sparsely populated areas.
- A transitional funding mechanism for regions still lagging behind the EU average economically.
- For the transition mechanism to be deployed on a fair basis.
- A bottom up approach to regional programme development and delivery.
- A positive and pro-active role for the regions in programme development and delivery.
- The need to simplify the administrative burden of programmes and project delivery.

However, much remains to be done within the Highlands and Islands region. The GDP is still lower than in the rest of Scotland, the UK, and the EU average. The Highlands and Islands still has to cope with the persistent disadvantage of peripherality, a difficult geography, and a dispersed and ageing population. Its economy remains fragile with a narrow economic base, dependent on the public sector and highly vulnerable to the consequence of economic shocks. It needs a new growth, building on its natural assets and maximising what has already begun.

We propose that future cohesion policy should enable us to build on our capacity to develop and manage the natural and cultural resources of these islands to the benefit of the residents, the H&I's, Scotland and the EU.

At this stage in the process, a number of aspects remain unclear and Shetland Islands Council would wish to engage in further dialogue, based on specific proposals, with the Commission on:

- How regions with specific geographic features such as the Highlands and Islands can assist in the delivery of EU2020.
- What "targeted provisions" could be developed to address geographic or demographic specificities.

- How conditionalities may impact on programme delivery.
- How Development and Investment Partnership Contracts will be developed in partnership with regional stakeholders.
- Obligations on priorities and themes.
- Financial, discipline and control from the regional partner perspective.
- Simplification of programme delivery.
- The implementation of territorial impact assessments to assess if any Member State or region would be disproportionately affected by the implementation of new EU policies.
- Extending the scope of financial engineering instruments promoting increased use of loans as opposed to grants.

#### **Responses to individual consultation questions:**

##### ***Q1. How could the Europe 2020 strategy and cohesion policy be brought closer together at EU, national and sub-national levels?***

If the objectives of the EU2020 strategy are to be met there will be a need for the resources of the EU to be focussed on their delivery. Proposals from Shetland Islands Council include:

- The alignment of priorities of regional operational programmes with national and EU2020 priorities as envisaged in the proposals for Common Strategic Frameworks (CSF) and Development and Investment Partnership Contracts (DIPCs). However the regional dimension should not be overlooked at this stage and Shetland Islands Council would urge for the regional context to be included in these deliberations as they will form a contextual framework for the development of regional or operational programmes.
- A focus on funding to address regional disparities thus realising the full socio-economic potential of the EU.
- A focus on developing the potential of the regions and the EU in addition to addressing need.
- Recognition of regions with specific geographic features and how they can overcome obstacles and make a contribution to EU2020 objectives.
- A sustainable approach to funding thus engendering a legacy from investments.

##### ***Q2. Should the scope of the development and investment partnership contract go beyond cohesion policy, and if so, what should it be?***

Shetland Islands Council is of the opinion that there is merit in this proposal as it acknowledges that policy initiatives beyond cohesion can play a key role in the delivery of EU2020. On this basis Shetland Islands Council would support policies and funding initiatives being proofed for their alignment with EU2020, examples include energy, transport and climate change. However, as above, Shetland Islands Council stresses the need to ensure that a common Strategic Framework (which translates the targets and objectives of Europe 2020 into investment priorities) and the development and investment partnership contract are constructed in a manner that allows for regional opportunities to be accommodated at the operational delivery level.

**Q3. How could stronger thematic concentration on the Europe 2020 priorities be achieved?**

Shetland Islands Council would like to reserve its position regarding a thematic approach until the Commission's proposals are more fully developed. Shetland Islands Council would rather see a focus on a regional approach which would support the development of regional opportunities and advantages in support of EU2020 which offers a bottom up approach in line with the principle of subsidiarity.

It would be preferable if future programmes were to be developed by establishing what the key regional objectives will be in meeting the challenges of EU2020 and using these to develop the future programme themes and priorities. In this way the future programmes will be a realistic view of the potential across Europe, encouraging each region to contribute what it can achieve to the overall priorities.

However, thematic prioritisation in line with regional opportunities may deliver the same results in many regions, for example renewable energy developments and the sustainable development of its natural resources.

**Q4. How could conditionalities, incentives and results-based management make cohesion policy more effective?**

**Conditionalities** - These can act as a lever to get programme partners to deliver programmes to help meet EU2020. Shetland Islands Council appreciates the need for programmes to deliver against both agreed targets and spend profiles. However, the establishment of conditionalities needs to be undertaken in partnership with the stakeholders/applicant groups who will be expected to deliver relevant EU programmes. A top down approach can and has failed in the past to take account of the circumstances surrounding programme delivery, eg poor alignment with regional priorities, financial structures and lack of match funding. Shetland Islands Council welcomes specific recognition of this in the consultation document but would add that conditionalities:

- 1 need to reflect the regional context as well as the national context;
- 2 be agreed sufficiently in advance and reflect the financial environment in which programmes will be delivered; and
- 3 need to be flexible to take into account changing circumstances, eg the economic recession arising after the 2007-13 programmes were agreed.

**Incentives** - As above, incentives can act to support programme delivery. However financial rewards can be of limited interest if applicants are struggling to find the match funding or if programmes are poorly aligned to regional priorities. So, as with conditionalities, incentives require to be developed in partnership and must reflect regional and programme contexts. Shetland Islands Council would welcome further dialogue on appropriate intervention rates to support cohesion.

It is becoming increasingly accepted that N+2 is a blunt instrument in seeking to ensure the performance and timeous delivery of operational programmes. Past experience shows that new programmes rarely start on time and the resulting hiatus compounds the meeting of N+2 targets. Incentives or conditionalities such as N+2 need to be reviewed and applied in the context of the programme environment. Specifically consideration should be given to an N+3 regime: N+3 in the first year and a financial profile which avoids front loading particularly where programme launch has been delayed.

**Results based management** - Shetland Islands Council welcomes proposals for a move to a more results orientated approach to monitoring performance. Such an approach should result in move away from the current focus on probative financial proof at the expense of the physical project delivery. However it is imperative that targets and outcomes need to be reliable, robust and reflective of the aims of a programme which has been developed in consultation with regions. Similarly, reporting on agreed targets needs to reflect their likely delivery in the timeframe of the activities approved. Sight ought not to be lost of the value of ex-post evaluations in demonstrating programme results nor of the experiences of applicants to previous programmes when designing the systems and processes of the future programmes.

The use of impact and ongoing evaluations is to be welcomed but such tools should be used in a timeframe that will prove useful in informing programme change and enable re-orientation within the lifetime of the programme delivery.

***Q5. How could cohesion policy be made more results-oriented? Which priorities should be obligatory?***

Better results could be obtained by the adoption of relevant, robust and reliable targets and indicators which reflect programme priorities (and by definition those of EU2020), value, financial profile and context for delivery. Shetland Islands Council would wish to see the abilities and opportunities available in regions towards meeting the objectives of EU2020 as the basis of the development of the priorities for the future EU programmes. By establishing as early as possible what each region can offer to meet EU2020 objectives the process of establishing realistic attainable targets will be more meaningful and productive.

However, along with the effective targeting of the future programmes there will still be an obvious need for financial reporting and monitoring but this aspect should be secondary and proportional to the value and targeted delivery of the programme.

Shetland Islands Council believes there needs to be flexibility, based on regional input, to determine priorities, in particular with respect to Article 174 of the Treaty. This calls for the recognition of mountains, islands and sparsely populated areas and specific attention required to cater for the needs that come from these persistent challenges. Some regions from the EU15 Member States, like ours, still have basic needs to be met, such as transport investment that should be amenable to EU co-financing. Shetland Islands Council is pleased to note that the 5<sup>th</sup> Cohesion Report acknowledges that an efficient transport network is important for sustained economic development and territorial balance. Island communities, such as ours, are dependent on reliable and affordable air and sea transport links which provide lifeline

services. Therefore, we believe that the EU should not be too prescriptive and should allow regions and Member States to prioritise actions based on regional specificities, consistent with the agreed Community Strategic Guidelines. Regions should be enabled to pursue their own specific strategies within a broad EU and national framework.

***Q6. How can cohesion policy take better account of the key role of urban areas and of territories with particular geographical features in development processes and of the emergence of macro-regional strategies?***

Shetland Islands Council recognises the fact that the vast majority of EU citizens live in urban areas and that there are many problems associated with urban life. Shetland Islands Council further acknowledges the important role of urban areas as drivers of growth, however, we would contend that large urban areas have the potential to generate wealth, unlike many rural areas. This potential should be taken into consideration in the allocation of cohesion funding to deliver EU2020. Shetland Islands Council would not like to see an ambitious urban agenda pursued at the expense of rural areas. Recognition needs to be given to the important role that small rural areas can and do make to the vitality and long term viability of rural regions. Further, and in line with the territorial imperative of the Lisbon Treaty, the EU needs to recognise and take advantage of the potential of rural areas in delivering growth and the priorities of EU2020 and this should be reflected at programme level.

The same argument applies to territories with particular geographic features, the definition of which very much characterises the Highlands and Islands of Scotland. Shetland Islands Council is pleased to note that territorial cohesion will be addressed within the new programmes to take account of areas with geographic specificities. In recognition of the potential of such territories, cohesion policy should also focus on the potential and opportunities of such regions to deliver growth and contribute to EU2020. It is essential, therefore, that there is flexibility to allow operational programmes to reflect regional circumstances.

Macro-regional strategies can have an important role to play where they can act as a vehicle to address a common problem as in the case of the Baltic Sea. However, Shetland Islands Council would not wish to see such models adopted as a means of allocating EU funding to deliver cohesion policy.

***Q7. How can the partnership principle and involvement of local and regional stakeholders, social partners and civil society be improved?***

The lack of regional involvement has been recognised by the EU and other institutions as a factor in the weakness of the Lisbon Strategy. Therefore the partnership principle should underpin all aspects of programmes; this would entail the involvement of local and regional stakeholders at an early stage in the development and delivery of programmes as well as the parameters that will govern delivery, eg conditionalities, incentives, and monitoring and evaluation frameworks.

Local Government in Scotland is very experienced in partnership working via Community Planning Partnerships (CPPs). There are a wide range of different types of potential stakeholders and their involvement should be a basic and underlying principle of the development of future EU policies, and particularly the development of funding programmes. However, it must also be recognised that the involvement of stakeholders should always be relevant to the activity or sector being discussed. CPPs involve all public sector organisations and include representation of the third/voluntary sector for each local authority area.

***Q8. How can the audit process be simplified and how can audits by Member States and the Commission be better integrated, whilst maintaining a high level of assurance on expenditure co-financed?***

This is the subject of much debate and indeed an exercise is ongoing within Scotland and will report to the Commission on its findings.

It is recognised that what may be viewed as simplification for some may not be acceptable to others. However Shetland Islands Council would offer the following:

- Prior agreement of what will be audited and how defrayment is to be evidenced.
- Adoption of common rules for the interpretation of eligible expenditure and proof of defrayment to be in place prior to programme launch.
- Stability of audit systems for the lifetime of programming periods.
- The use of audit systems to ascertain fiscal veracity at the outset of programme delivery.
- Greater use of nationally approved auditors such as Audit Scotland to provide comfort to the EU as to the veracity of financial controls within a Member State.
- The application of proportionality in audit procedures.

***Q9. How could application of the proportionality principle alleviate the administrative burden in terms of management and control? Should there be specific simplification measures for territorial cooperation programmes?***

Adopting differing reporting, audit procedures and levels of proof under different circumstances should be considered. Proportionality is a core principle of EU activity but in terms of programme delivery there are a range of perspectives on proportionality such as:

- Regional past performance
- Scale of programme
- Level of expenditure
- Nature of applicant organisations

Establishing a workable model of proportionality based on the regional principles of the EU will not be easy but further consultation and debate on this issue is encouraged by Shetland Islands Council.

Shetland Islands Council would welcome a review of procedures relating to territorial co-operation programmes with a view to establishing common rules across programmes and that nationally accepted audit procedures can apply to partners freeing the lead partners from having to verify audits from third party Member States.

When preparing for the start of a new programme, all the rules and audit requirements should be agreed and clearly communicated well in advance of the programme start date. This gives each Member State the time to submit its proposed procedure and implementation plans for the programme for agreement by the Commission before a programme is open for applications.

There should also be greater alignment across different EU programmes, so that common principles on eligibility and process can be established and adhered to. Again, this is particularly relevant for smaller organisations that may have a lot to offer various programmes, but cannot provide the administrative support to build up expertise in a wide range of different regulations. Greater commonality would also reduce the chance of mistakes being made. This approach would also encourage organisations to develop a cohesive and logistical approach to working across different programmes.

***Q10. How can the right balance be struck between common rules for all the Funds and acknowledgement of Funds' specificities when defining eligibility rules?***

Shetland Islands Council accepts that this may not be an easy process, however the Common Strategic Framework and Development and Investment Partnership Contract processes involving the Commission, Member States and regional stakeholders provide a vehicle for dialogue. This needs to be underpinned by a mutual desire to deliver simplification at programme and project levels, and for the identification of common ground which will facilitate the agreement of as many common rules as possible and broad sectors of interest that are well defined in the context of EU2020.

The requirements of a future package of funding programmes will need to be applied across the EU, however the regional specificity needed to meet local needs can be achieved through maintaining regionally sub-programmes with priorities that reflect the particular areas of need and interest in those regions.

***Q11. How can financial discipline be ensured, while providing enough flexibility to design and implement complex programmes and projects?***

Current regulations, interpretation and implementation of financial management of programmes is complex, unequal and cumbersome. This has led to reluctance by potential applicants to become involved with some programmes and to view the programmes as unwieldy.

Shetland Islands Council considers the establishment of mutually agreed financial reporting, monitoring and audit systems prior to programme launch as a pre-requisite in developing future programmes. Commonality of rules and their interpretation across Member States is vital in ensuring that future funding programmes are used effectively and fairly. Any future programme financial systems should be developed based on the experiences of the last three programmes and should be built upon those systems currently in place as opposed to starting from scratch.

Despite the difficulties faced in the current programme, maintaining stability within each Member state is key to continued programme delivery.

***Q12. How can it be ensured that the architecture of cohesion policy takes into account the specificity of each Fund and in particular the need to provide greater visibility and predictable funding volumes for the ESF and to focus it on securing the 2020 objectives?***

Shetland Islands Council does not see the value in having a specific focus for the ESF alone in achieving the EU2020 objectives. Separating ESF from cohesion policy would greatly weaken its coherence with ERDF.

Fund visibility should be delivered via integrated programming of separate Funds (ERDF, ESF, EFF & EAGGF) or integration of development and delivery. All regions should be treated fairly in designing the future programme.

***Q13. How could a new intermediate category of regions be designed to accompany regions which have not completed their process of catching up?***

As proposed in the Fifth Cohesion report, Shetland Islands Council would support a new intermediate category for regions with GDP above 75% and below 100%. What is important is that aid intensity is fair to all regions in such a category. In addition, a clear explanation of which years are being used to measure regional GDP is required and how the calculations are made. This is particularly important as the impact of the recession on more recent GDP calculations should be considered. Shetland Islands Council views this as a key topic for future discussion, particularly post publication of the financial perspectives as the budgetary allocation will determine the upper ceiling of any transitional funding category.





## REPORT

To: Development Committee

27 January 2011

From: Shetland Telecom Project Manager

### **Report No: DV009-F Fibre to Everywhere**

#### 1.0 Introduction

- 1.1 The purpose of this report is to set up a working group to develop telecommunications network capabilities in Shetland and build on the opportunities that exist from the SHEFA2 Interconnect project.

#### 2.0 Links to Corporate Priorities

- 2.1 The activities reported in this document aim to fulfil commitments in the Corporate Plan to deliver a sustainable economy.
- 2.2 The activities reported in this document support the aim contained in the Economic Development Policy Statement (2007-2011) to improve broadband services in Shetland.
- 2.3 The activities reported in this document will support the Council policy on job dispersal.
- 2.4 The activities reported in this document will support the Council in the provision of high quality data and voice communication services to schools and other remote sites post Pathfinder, March 2014.

#### 3.0 Risk Management

- 3.1 A detailed business case will be developed that will include costs / benefits, schedule and quality requirements.
- 3.2 PRINCE2 methodology will be followed including issue and risk registers.
- 3.3 Any procurement will follow Council policy/procedures, Scottish and UK Government guidance and EU procurement regulations.

## 4.0 Background

- 4.1 At Development Committee, on 29 April 2010 [Min Ref 29/10], it was agreed that the SHEFA2 Interconnect project (S2I) should press ahead with the connection of Lerwick to the Faroese fibre optic cable at Maywick, this connection being the solution to the first major restriction on connecting Shetland to world wide data communications network.
- 4.2 Connecting Lerwick to the SHEFA2 cable is the essential first step, however, it is important that the benefits that may come from the project are made available across the whole of Shetland. Further development of the Islands data communications network will be necessary to achieve this.
- 4.3 The Council currently uses the Scottish Government funded Pathfinder network to deliver telecommunications to all Council owned premises across Shetland. The contract comes to an end in 2014 and as yet, there is no plans being developed to provide services beyond that date. Since the 1980's the broadband speed needed to service the growing demands of businesses and private users has doubled every 18 months. There is no evidence of this increase slowing down. In March 2007 a small Shetland school was using approximately 4 Megabits per second (usually written 4Mbps). Extrapolating from this it can be seen that by March 2014, the end of the Pathfinder contract, the same school will be using 100Mbps
- 4.4 Shetland needs a communications network that can deliver 100Mbps by 2014 and is able to support speeds of 1000Mbps (1Gbps) by 2020
- 4.5 There are many reasons why Shetland will benefit from improved data communications. These include: job dispersal, pathfinder replacement, economic development, support for fragile communities, improved resources for tourism, attracting inward investment, improved facilities for home workers, better customer care, ability to react quickly to local events, increasing Shetland's reputation as a good place to do business, etc.

## 5.0 Proposal

- 5.1 The proposal is to set up a project team which will investigate the following options for delivery of a 'fit for purpose' telecommunications network across Shetland which is capable of delivering services to Council premises after Pathfinder and also providing access to homes and businesses.
- 5.2 The project will investigate the relative costs/benefits of the following:-
  - leasing services from a telecommunications provider (Telco),
  - working with a Telco to develop a Telco owned fibre optic network or
  - building a Council fibre optic network

- 5.3 The project team will report back to Development Committee within 2 Council cycles with an options report and recommend a solution.
- 5.4 Once the preferred solution is decided on, the size of the project will necessitate advertising in the Official Journal of the European Union and carrying out a tender in accordance with procurement legislation and related Council policy. This process will take between 6 and 9 months.
- 5.5 Design, planning and procurement will take place in financial year 2011 – 2012 with installation in financial years 2012 – 2013 and 2013 – 2014 so that the network is complete in time for the end of the Pathfinder Project in March 2014.
- 5.6 If a Council owned network is the preferred solution, then it will have to go through the Capital Programme gateway process.

## 6.0 Financial implications

- 6.1 BT's current charge for a 100Mbps circuit in an urban location on the UK mainland is approximately £14,000 per annum. If there is no existing fibre to the premises in question, as is the case to all but one of the rural Pathfinder sites, BT apply an additional installation charge. Previous experience is that this will be in the order of £10,000 with some sites possibly much higher. Using these figures, the 10 year net present value of leasing services to the Council's remote sites is calculated at approximately £4,750,000. Net present value for a Council owned network over the same 10 years is broadly comparable.
- 6.2 Part of the proposal is to identify sources of grant aid.
- 6.3 Project team staffing costs will be met from existing budgets, any other costs will be met from Shetland Telecom budget code RRD1551

## 7.0 Observations

- 7.1 Pathfinder sites are spread across the whole of Shetland. Improved services and/or fibre optic delivery is not currently possible using existing Telco infrastructure.
- 7.2 The ability to offer world class data services at competitive prices to units in Shetland's 12 Industrial Parks, all of which are on the proposed fibre route, will be a significant boost to marketing Shetland as a modern and dynamic place to do business.
- 7.3 Community led broadband schemes, similar to those currently being built in places like Alston in Cumbria (Cybermoor Project), will be possible (see Appendix 1) if we develop a Council owned network.

- 7.4 If the Council builds its own fibre optic network spare capacity will be made available to other operators at wholesale rates which would generate income.
- 7.5 Shetlands 10 doctors' surgeries are all on the route of the proposed fibre optic network as are a number of police and fire stations which may help Shetland's public services deal with the effects of budget cuts.
- 7.6 It should be noted that several areas of mainland Shetland will not be reached by the fibre design (appendix 2) and that the project will need to identify how best to connect them.
- 7.7 A long-term replacement of the 10Mbps line to the Fetlar Community Broadband Scheme is being investigated. This will introduce high-speed wireless links to the isles which if successful will pave the way for similar technology to service Skerries, Burra, Bressay and Muckle Roe, etc.
- 7.7 If Sandness is connected to the fibre network then Papa Stour can be serviced using the same technology as can West Burrafirth.
- 7.8 Similar schemes, though with a significantly greater degree of difficulty might be used to connect Fair Isle and Foula.

## 8.0 Policy and Delegated Authority

- 8.1 This report has been prepared under Economic Development Policy number 15, "Establish robust broadband services to businesses, organisations and homes in Shetland" which was approved by the Development Committee on 24 April 2008 [Min. Ref. 02/08] and by the Council on 14 May 2008 [Min. Ref. 55/08].
- 8.2 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
- 8.3 As the subject of this report is covered by existing policy the Development Committee does have delegated authority to make a decision.

## 9.0 Conclusions

- 9.1 It is very probable that the telecommunications industry will never extend fibre optic connectivity to remote rural areas of Shetland without substantial financial support.
- 9.2 Current proposals from the HIE BDUK Project will not address the significant broadband problems for the vast majority of the Isles.

- 9.3 If the Council wishes to influence the expansion and improvement of the Islands communications infrastructure it will need to provide significant funds for this, either through gap funding or by installing its own network.
- 9.4 As national and local initiatives develop there will be increasing demands from Shetland's more remote communities. If the Council develops its own network it will be able to use it to help satisfy these demands and influence how the Islands broadband systems are developed.

## 10.0 Recommendations

10.1 It is recommended that a project team be established that will:

- 10.1.1 Produce a specification of requirements that can be issued to Telco's for indicative costs and schedules.
- 10.1.2 Produce a detailed Shetland wide network design that will meet these requirements by March 2011.
- 10.1.3 Investigate options for grant aid through the UK Government Broadband Strategy, ERDF, Scottish Government etc.
- 10.1.4 Investigate the use of high speed (1Gbps) wireless for delivery of network connections to remote islands where fibre is either technically or financially problematic.
- 10.1.5 Propose a solution for Shetland's long term telecommunications needs

Our Ref: GS/JJ RF/1312  
Date: 19 January 2011

Report No: DV009-F



## Appendix 1

**DRAFT**

# A digital Shetland

**A discussion paper**

Marvin Smith







# A Digital Shetland

## *Introduction*

High quality, affordable telecoms services are consistently highlighted as *the* critical requirement for the future growth and sustainability of Shetland. These services must be available across the Isles if industry and employment are to be stimulated in areas of Shetland outwith Lerwick.

The investment made in the SHEFA2 Interconnect project to link into the Faroese cable will result in Shetland for the first time, being able to access resilient, unlimited and reliable telecommunications for the first time. This document will set out the possibilities of building on this connection and getting the benefits out to the communities.

This discussion document aims to set out a possible 'plan of action' and at the same time give the basis for a discussion with the Telcos on how we can move forward.

## *Current Broadband Situation*

There are 34 telephone exchanges in Shetland which offer ADSL (basic broadband of up to 8Mbps). These exchanges are owned by BT and service homes and businesses on copper connections.

The Pathfinder network services 96 Council owned/operated buildings across Shetland. This network was funded by the Scottish Government and belongs to Cable and Wireless. The majority of this network uses microwave (radio) links and only provides connections to SIC premises.

The Council owns and operates a private fibre optic network which connects a number of offices in Lerwick.

Vidlin and Fetlar are currently part of a broadband trial using wireless technology. The trial is being run by the Council and the network is administered by Shetland Broadband.

The current delivery methods available in the UK market today are as follows

- **Copper from the exchange** – Used for ADSL (up to 8Mbps) and ADSL2+ (up to 20Mbps).
- **Fibre to the Cabinet** – boosts broadband speeds by shortening the distance from the electronic equipment to the customer. This involves laying fibre-optic cables to green street cabinets or their equivalent, which are typically

located within a few hundred metres of the customer premises. The customer is then connected using the existing copper network.

- **Fibre to the Premises** – networks use fibre all the way to the customer's property, usually terminating at a box on the wall. Fibre can support much faster broadband speeds than copper lines. FTTP network operators around the world are providing broadband services today at 50 Mbps, 100 Mbps and even 1 Gbps
- **Wireless** – Used to deliver broadband 'through the air' over a short distance (line of sight) and capable of delivering up to 50Mbps (theoretically it can deliver more)
- **Satellite** – Delivers broadband of up to 10Mbps by installing a dish at the premises.

No fibre based solutions are available in Shetland. Domestic users are limited to ADSL (up to 8Mbps) connections and only Fetlar, Vidlin and some parts of Lerwick can get wireless connections (of up to 8Mbps in Lerwick and 2Mbps in Vidlin/Fetlar).

Shetland customers using the BT network are increasingly experiencing faults and speeds seem to be slowing to unusable levels at peak times. Frustration is growing at the appalling customer support and BT seem to be incapable of addressing localised issues.

### ***How fast is fast enough?***

The demand for better and faster broadband for daily domestic life and business needs is evident and growing all the time. Shetland is now lagging behind the rest of the UK and the UK is lagging behind a large percentage of Europe.

For the sake of argument (and this document) a realistic and achievable target is to put in place a network that is capable of delivering 100Mbps to the premises if and when required. The reason I say that is, any investment or improvement to telecommunications should be scalable and future-proofed to ensure that we are not faced with sizable upgrades again in a few years time.

### ***What improvements are necessary?***

To deliver better speeds needs better telecoms networks.

Fibre optic technology is undoubtedly the most attractive solution but is it realistic or affordable to develop a fibre to the home network for the whole of Shetland?

I think what we need to is a step change in the telecommunications network in Shetland which can then be used to deliver improved services. The core network is where we need to focus our attention. Building fibre networks which gets as close as possible to the customers is critical to ensuring a long-term improvement in broadband in Shetland.

If the funding of an improved network has to come from the SIC then we should be addressing the core network and it should be fibre based. If a Telco (or Govt) is willing to invest in an alternative Fibre to the Cabinet (for instance) solution for Shetland, this will greatly assist the current situation but will require more upgrades in a few years time. Any SIC investment has to be based on a long-term solution for the core network.

### ***So what should we do/ what could we do?***

The most important starting point is to aim to develop a network which can be built upon and expanded in the future. It is important that the service providers and Telcos have a network that they can use to offer improved services on.

One solution that is gaining a lot of credence is the 'fibre to the village pump' model. The theory behind this is that investment is made in order to get fibre connectivity to village/community and then the community put together their own solution for the last mile. The 'digital village pump' would be either an exchange, public building or a street cabinet which would house active equipment which then could be used as a starting point for a community's access network. An access network is the 'last mile' connection from the core network to the customer's home or business. This access network could either be fibre optic or wireless (or a mix of the two) depending on what the community wants.

The communities could either form a co-operative or a community interest company to raise funds, apply for funding and deploy network. This would give the people in the community a stake/ownership in their own networks. Failing that, a telco or a service provider could step in and provide the network if financially viable.

### ***How can this be achieved?***

The Council currently uses the Scottish Government funded (and Cable and Wireless owned) Pathfinder network to connect 96 sites across Shetland from Unst to Sumburgh. This contract comes to an end in 2014 and no significant post-Pathfinder solution is being worked upon. The current capabilities of Pathfinder will not be good enough to supply the increased bandwidths required come 2014. So the question begs..... what is the Council going to do to provide telecommunications to these sites post-2014?.. The current SIC fibre installation (SHEFA2 Interconnect Project) will provide the opportunity for 11 of these sites to connect to the SIC network directly but there is no apparent solution for the other sites. Improved services are simply not available from any Telco for the other sites due in the main to their geographic location.

I propose we look at investing in a core network which links all these sites with fibre optic cables (within reason) and use this network as a backhaul network for community broadband networks to deliver broadband to people and businesses all across Shetland.

The costs of doing this will not be small but considerably less than you might think and funding may be possible from Government or other Telcos.

The investment would result in a long term saving for the Council because buying these services for the current 96 sites will be costly (if possible).

If the Council intends on bringing forward a jobs dispersal policy then telecoms is going to have to be a key element of the plan. Investment in telecoms is going to have to be a key element in that.

Public sector funding is going to be critical in deploying any improvements in telecoms infrastructure. We need to look to the long-term and decide (soon) how best that investment can be made. Using public sector investment to improve telecoms for the economic benefit of the whole of Shetland is undoubtedly the best way forward for the Council (and the rest of the private Sector) and Shetland's businesses and residents.

### ***What should we be doing next?***

We need to engage with the community to establish demand and whether or not a 'Community' scheme is something they would be interested in. I propose a series of road shows that goes to as many country halls as possible.

We need to re-engage with BT, Cable and Wireless, Faroese Telecom and as many other Telcos as we can. This will give them the chance to be involved in the project and/or come forward with alternative proposals. We don't necessarily need the involvement of Telcos but it is vital that any mutually beneficial arrangements we can come to with them should be encouraged.

Funding sources such as the UK Government and the EU will need to be investigated for both the core network and the community owned access networks.

### ***Conclusions***

Whatever and wherever we end up needs to address a number of issues:-

- We need to save Council money in the long term
- We need to get improved broadband for the whole of Shetland
- The solution needs to be sustainable
- The solution needs to be future-proof



## **REPORT**

**To: Development Committee**

**27 January 2011**

**From: Marketing Section Head**

**DV007-F**  
**Shetland Events and Festivals Action Plan**

### **1.0 Introduction**

- 1.1 This report has been written to gain Council support for an action plan and associated events and festivals support scheme which has been compiled, based on the work contained within the Shetland events and festivals strategy. The strategy was completed in September 2010.

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

- 2.1 This report has strong links with Council Corporate Plan policy to "Lengthen the duration of the tourist season".
- 2.2 The action plan will also help achieve the goal of the Culture, Recreation and Community Development section of the Corporate Plan. In particular, to "Support individuals and communities to help them reach their full potential, cherish and promote our traditions and promote cultural activities".

### **3.0 Risk Assessment**

- 3.1 The Customer/citizen/community category. The Council has approved the strategy and the main recommendation of the strategy, including the formation of an action plan and associated funds to support development of appropriate events and festivals in Shetland. If the recommendations of this report are not approved and followed through there is the possibility that this could have a negative effect on the Council's relationship with the Shetland community.

## **4.0 Background**

- 4.1 Events are a valuable part of the cultural, social and economic fabric of Shetland. In 2010, the Council undertook a strategic exercise aimed at investigating the value of these events to Shetland.
- 4.2 The exercise demonstrated that Shetland's events and festivals, in their many manifestations, across venues in Shetland are, per annum, calculated to have a turnover of about £1 million, have 127,000 attendees and an economic value for £6.2 million. The strategy covers all types of events in venues across Shetland both those organised by the Council and those that are coordinated externally by private individuals or organisations.
- 4.3 This is a significant part of the Shetland economy, but the findings from the strategy demonstrate that additional benefit can be achieved. The strategy praised the value of the existing volunteer effort in Shetland in organising festivals and events and suggested that efforts should be made to build on Shetland's success in this area.
- 4.4 The Shetland Events and Festivals Strategy was approved by the Development Committee on 30 September 2010 [Min Ref 60/10] and by Shetland Islands Council on 27 October 2010 [Min Ref 145/10].

## **5.0 Proposal**

- 5.1 The strategy suggested a number of inter-related objectives aimed at realising the additional potential benefits recognised. These have been used to create the action plan which is at Appendix 1. The main purpose of the actions listed in the plan is to guide the activities of the Council in respect of supporting development of events in Shetland.
- 5.2 The main element of this is creation of a tailored, specific Shetland events grant support scheme, administered through the Economic Development Unit (EDU). This will aim to encourage development of new and existing events which recognise, principally, attracting substantial numbers of external visitors and participation developments.
- 5.3 This could for example support events in remote areas such as Unst (e.g. Unstfest) or new areas of potential development such as fishing, nature or outdoor adventure sports events for which there is much potential but no dedicated mechanism to support such developments currently.

- 5.4 It is proposed that the scheme will be a distinct entity with a clear aim, objectives and criteria which will link in directly to the main findings from the strategy.
- 5.5 It is intended that a full, detailed draft scheme will be presented for approval to the Development Committee on 03 March 2011.

## **6.0 Financial Implications**

- 6.1 As the Flavour of Shetland event will not be held this year due to the Tall Ships Race visit to Lerwick, as previously advised to Committee, it is intended that the scheme is financed from the proposed 2011/12 Flavour of Shetland budget under cost centre RRD5039. Specifically it is proposed that a sum of up to £30,000 is approved from this budget to be put forward as the event and festivals support scheme budget. This is subject to approval of the 2011/12 estimates exercise.
- 6.2 The remainder of the budget in the Flavour of Shetland 2011/12 cost centre RRD5039 amounts to £26,900. It is intended that this would be used to finance a Shetland showcase element to the Tall Ships Race organised by EDU staff and is considered sufficient for this purpose. The showcase will comprise, in the main, a craft village along the foot of Fort Charlotte at Commercial Street, populated by businesses with quality-tested products. This is subject to approval of the 2011/12 estimate exercise.
- 6.3 EDU staff have also completed a 'pre-application' under the Shetland LEADER programme for convergence funding towards the potential events and festivals support scheme. Should an eventual application be successful, this could result in a reduced commitment towards the fund from the Council or indeed an increase in the value of the support scheme, given that convergence funding is awarded on a 50/50 matching basis. The outcome of the pre-application and application will be known prior to the start of the financial year and an update on this will be given at the Development Committee on 03 March 2011.

## **7.0 Policy and Delegated Authority**

- 7.1 This report has been written based on the following Economic Development Policies (Development Committee Minute Reference 02/08, SIC Minute Reference 55/08):

6 – ‘Continue to promote Shetland as a high quality visitor destination’;

24 – ‘Improve Shetland’s reputation as a place that offers products of excellent quality that meet the needs and aspirations of the consumer most likely to be interested in what Shetland has to offer; and, services provided to a standard that consistently exceeds customer expectations’;

25 – ‘Enable individuals and businesses to develop and promote Shetland products and services with confidence and pride’.

- 7.2 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 and Europe.

## **8.0 Observations**

- 8.1 EventScotland has announced that it has allocated an annual themed focus on events taking part under its national programme in 2011-2013, namely year of ‘Active’; year of ‘Creative’ and year of ‘Natural’ respectively. EDU staff were successful in gaining finance for the Shetland Food Festival in 2010, from EventScotland, with that year having a Food and Drink focus. Given the relevancy of the themes highlighted for the years ahead, Shetland potentially stands in a very strong position to gain funding and a local scheme could help support applications for external funding.
- 8.2 The Johnsmas Foy will not take place in 2011 due to the Tall Ships Races visiting Lerwick in July. The Foy is currently being reviewed and a paper will be put to a future Committee on this issue.
- 8.3 Separate budgets are established for the Tall Ships Races and Shetland Food Festival. Similarly, the Islands Year of Culture project is also a separate initiative and therefore these events would not use monies identified for the events and festivals support scheme.

## **9.0 Conclusion**

- 9.1 Creation of an action plan is a logical progression from approval of the Shetland events and festivals strategy.



- 9.2 In conjunction with formation of an associated events and festivals support fund, together these initiatives will enable Shetland events and festivals to be given improved focus and support by the Council to continue to develop providing both economic and social benefits to the community.

## **10.0 Recommendation**

10.1 I recommend that the Committee:

- a) Discuss and approve the events and festivals action plan which is shown at Appendix 1
- b) Instruct EDU staff to formulate a Shetland Events and Festivals Support Scheme for launch in the financial year 2011/12 and present full details of this to the next Development Committee on 03 March 2011.

Our Ref: NHH/KLM  
Date:19 January 2011

Report No:DV007-F



# **Shetland Events and Festivals**

## **Action Plan 2011 - 2015**

**DRAFT**

## **1. Introduction**

Events are a valuable part of the cultural, social and economic fabric of Shetland. In 2010, the Council undertook a strategic exercise aimed at investigating the value of these events to Shetland.

The exercise demonstrated that Shetland's Events and Festivals in their many manifestations, across venues in Shetland are, per annum, calculated to have a turnover of about £1 million, have 127,000 attendees and an economic value for £6.2 million.

This is a significant part of the Shetland economy but the findings from the strategy demonstrate that additional benefit can be achieved.

The term 'event' encompasses a range of cultural, arts, recreational, sporting and commercial activities. The strategy covers all types of events in venues across Shetland both those organised by the Council and those that are coordinated externally by private individuals or organisations.

It is proven that an event of national or international significance brings with it economic benefits to the area. Additionally, media coverage associated with the event increases the profile of the area and ultimately, in time, the brand of that place.

Developing existing events therefore, which have the potential to become of national or international significance therefore achieves the strategic aims of increasing economic impact and heightening the profile of Shetland.

Events also enhance the quality of life, attract funding and visitors, encourage a sense of community or civic pride and therefore make Shetland an attractive place to live, work and visit.

The actions listed in section 3 of this document are intended to guide the activities of the Council in respect of Shetland events which it is intended will be largely around a suitable financial assistance incentive scheme.

## **2. National, regional and local policy context**

The Shetland Events and Festivals Action Plan is in line with:

- Shetland's Single Outcome Agreement
- Shetland Islands Council Corporate Plan
- Shetland Events and Festivals Strategy
- Shetland Cultural Strategy
- Shetland Marketing Strategy
- Scotland The Perfect Stage – EventScotland: Scotland's events strategy

There was a wide public consultation on this project which sought the views of events organisers and a wide range of individuals from public and private backgrounds. All comments have been considered and have informed the shaping of the final strategy and this plan.

The Council endorsed the Shetland Events and Festivals Strategy on 30 September 2010.

## **3. Shetland Events and Festivals Strategy Main Recommendations**

The main recommendations of the strategy which guide the action plan are presented below.

- |     |   |
|-----|---|
| 1.  | Our vision is that tourism can make an increasing contribution to the Shetland economy and Festivals and Events can be an important tool to achieve this. They can be used to stimulate interest in Shetland and to mobilise the use of its special assets to motivate visitors to come to the Islands. These can be quite new events or the targeted growth of those that already exist.             |
| 2.  | Support this priority with a programme for organisers to work with "PromoteShetland" to develop the marketing of appropriate events and festivals outside of Shetland through organisers having effective marketing plans, early decisions on programming, early print production, improved web marketing, media action and activity to make Box Office a full involvement of Shetland events online. |
| 3.  | Encourage continued support for the range of festivals that have developed, primarily for local people as part of the measure to ensure that, despite living on the islands, the population has access to top quality performances and "big names". Where appropriate encourage these festivals to look outward and to attract visitors from beyond Shetland.   |
| 4.  | Wherever possible to maximise the use of events and festivals to advance the main Shetland policy of persuading people to move to Shetland to live and work. Creating new jobs opportunities can contribute to this aim.  |
| 5.  | Focus at least for the next 5 years from 2012 on this main objective of targeting events and festivals that are capable of generating substantial numbers of additional visitors. Do not support single big-budget projects and target all available sources at the development of certain existing events and the creation of new events directed towards this objective.                            |
| 6.  | Encourage the use of Shetland-based equipment and services and take positive steps to develop these businesses.   |
| 7.  | Focus on Shetland's under-used assets whether these are in the natural world, unsold rooms or event venues.   |
| 8.  | Give a monetary value to volunteer time in any bids and proper status to those involved.  |
| 9.  | Seek ways of enhancing local sponsorship, - perhaps by schemes for joint funding.   |
| 10. | In those events provided primarily for local people consider enhancing the number of sport related events that are included.  |
| 11. | Encourage events that contribute to healthy living.   |
| 12. | Recognise the importance of personalities in adding credibility to an event. Secure wider views on events and festivals from stakeholders.  |



#### **4. Shetland Events and Festivals Strategy Action Plan**

The main strategic recommendations from the strategy are very closely inter-related. They have been taken used to create 11 action areas with individual action points.

The Shetland Events and Festivals Strategy Action Plan is intended to provide a basis for the Council to work towards realisation of the strategic recommendations listed above.

It should be borne in mind that in many cases the Council's influence can only be one of support and encouragement since organisation of events in Shetland are, in the main, undertaken out with the Council.

It is not intended in anyway for the Council to become involved in the planning, coordination, organisation and delivery of the many external events and festivals in Shetland. These are largely already organised to an exceptionally high standard and are a credit to Shetland, demonstrating well the sense of community pride and fulfilment that make Shetland an attractive place to live, work and visit.

However, there is an ambition to develop existing Council event activities towards more self-sustaining models of operation. It is considered that the track record of these events present significant opportunities for future development and, where relevant, programme expansion which will enable external sponsorship to be attracted, generate additional income and avoid the dangers of event stagnation.

This will take time and careful consideration needs to be given to how these events are positioned and presented to enable these opportunities to be realised, particularly in time where there are significant pressures on public budgets.

The central purpose of the Action Plan is to focus on events and festivals that contribute to the economy by bringing visitors to Shetland either as participants or spectators.

The main tool to achieve this is creation of a tailored Shetland events grant support scheme, administered by the Economic Development Unit.

**1 Encourage formation of new events and growth of existing events that harness potential.**

- Create a tailored and specific Shetland events grant support scheme, administered through the Economic Development Unit which encourages development of new and existing events which recognize, principally, attracting substantial numbers of external visitors and participation development.
- Work to attract events of national and international significance with minimal cost which will bring benefits to both the economy and the profile of the area which focus on positive aspects of Shetland
- Assist locally-focused festivals and events to attract high quality performers and 'big names' which can contribute to quality of life.
- Empower local and organisations to coordinate their own events and encourage youth participation.
- Via the Economic Development Unit and Business Gateway supply event organisers with advice and information to help plan, market, budget, implement and develop events with confidence.
- The Council has a duty to provide services that are essential for event organisers. The Council will ensure these are provided to a high standard with a customer focus and to a defined timescale.
- Where required, create multi-organisational working groups as and when required for individual events
- Work with PromoteShetland to identify and promote Shetland as a leisure and business events destination venue and in marketing the area and its facilities to attract suitable commercial, educational, professional and social groups.
- Maintain good communication between stakeholders using existing and new forums when necessary.
- Work with the Scottish Executive and Scotland's Year of Island Culture to develop a programme of events for Shetland.
- Capitalise on opportunities for Shetland presented by EventScotland's themed event focus years between 2011-2013, being: 2011 *Year of Active*, 2012 *Year of Creative* and 2013 *Year of Natural*.



- Continue to develop the Shetland internal and external events calendar and encourage wider participation in this as a source of reputable, advance information.
- Work with the Scottish Executive, the Nations and Regions Team, EventScotland and the London 2012 Olympics Organising Committee to identify and realise opportunities in the areas of tourism, business and events presented by the 2012 Olympics and Paralympics in London.
- Develop Flavour of Shetland and Shetland Food Festival towards more self-sustaining models of operation.

**2 Where relevant, encourage festivals and events to look outward and to attract visitors from beyond Shetland.**

- Encourage new and existing events to work closely with PromoteShetland and VisitScotland to enhance and develop promotional efforts out with Shetland.
- Encourage and support development of individual event marketing plans which take into account coordination, organisation, delivery and promotion of events.
- Encourage organisers to take early decisions on programming, early print production, improved web marketing, media action and activity.
- Highlight and encourage sharing of best examples and case studies between existing festivals and events.
- Ensure that relevant events link to The Shetland Box Office so that visitors can actively link to Shetland events online.

- |  |  |
|--|--|
| <p><b>3    Maximise the use of events and festivals to promote Shetland as an attractive place to live and work.</b></p>           | <ul style="list-style-type: none"> <li>▪ Continue to highlight events information and news via monthly PromoteShetland newsletters and by highlighting and enhancing events and festivals features primarily within the PromoteShetland family of websites but also through wider promotional messages.</li> <li>▪ Continue to feed timely event information to PromoteShetland and VisitScotland and encourage other event organisers to do so.</li> <li>▪ Improve and extend the use of Council media and other communication channels, including digital, to promote Shetland events and venues and events coordinated and delivered by the Council's Economic Development Unit.</li> </ul> |
| <p><b>4    Encourage the use of Shetland-based equipment and services and take positive steps to develop these businesses.</b></p> | <ul style="list-style-type: none"> <li>▪ Where relevant, through existing Council funding schemes, support development of businesses providing services to the events industry in Shetland.</li> </ul>   |
| <p><b>5    Focus on Shetland's under-used assets whether these are in the natural world, unsold rooms or event venues.</b></p>     | <ul style="list-style-type: none"> <li>▪ Improve linkages between accommodation providers and events organisers and work to improve the quality of information available on events to the tourist industry.</li> <li>▪ Actively work to encourage specific development of new events for which there is significant potential and use positive aspects of Shetland as the basis for developing events e.g. fishing, natural environment, outdoor adventure sport etc.</li> </ul>   |
| <p><b>6    Give a monetary value to volunteer time in any bids and proper status to those involved.</b></p>                        | <ul style="list-style-type: none"> <li>▪ Establish a system of measuring volunteer time/value in events that are financially assisted.</li> </ul>  |
| <p><b>7    Seek ways of enhancing sponsorship in Shetland events.</b></p>  | <ul style="list-style-type: none"> <li>▪ Encourage new and existing events organisers to seek sponsorship from local and national organisations and bodies.</li> </ul>   |

- |  |   |
|--|---|
| <p><b>8 In those events provided primarily for local people consider enhancing the number of sport related events that are included.</b></p> | <ul style="list-style-type: none"> <li>▪ Work with local sports representatives and organisations to encourage development of existing and new events to increase the number and quality of sports events taking place in Shetland.</li> <li>▪ Encourage sports groups and associations in Shetland to access the event development fund to develop new and existing sports-related events which add value to the economy or profile of Shetland.</li> </ul>                        |
| <p><b>9 Encourage events that contribute to healthy living.</b></p>  | <ul style="list-style-type: none"> <li>▪ Publicise health benefits of events and encourage events and festivals where relevant to recognize and promote the benefits of healthy living.</li> <li>▪ Support events that encourage active and healthy lifestyles.</li> <li>▪ Support events that help improve the quality of the environment.</li> <li>▪ Work in partnership to deliver a wide portfolio of events that are inclusive and encourage community involvement.</li> </ul> |
| <p><b>10 Recognise the importance of personalities in adding credibility to an event.</b></p>  | <ul style="list-style-type: none"> <li>▪ Actively support the inclusion and promotion of personalities being connected with Shetland events directly and through PromoteShetland.</li> </ul>  |
| <p><b>11 Secure wider views on events and festivals from stakeholders.</b></p>   | <ul style="list-style-type: none"> <li>▪ Form a network of festival contacts with which to communicate with and share best practice.</li> <li>▪ Encourage organisers to seek, collect and analyse feedback from attendees and artistes/contractors at events and use this to inform future event planning and development potential for relevant events.</li> </ul>   |





## **REPORT**

**To: Development Committee**

**27 January 2011**

**From: Head of Business Development**

### **DV001-F Agricultural Support Working Group**

#### **1.0 Introduction**

- 1.1 This report has been written to gain Council support for the content of the lobbying campaign that is being recommended and to approve an Agricultural Support Working Group for the purpose of lobbying to achieve a fair support system for agriculture in Shetland, following the current reviews that are being undertaken both by the Scottish Government and the EU. It is necessary to get Committee approval for this because of the political nature of the work, which will involve a lot of staff and Member time over the next two years and there will be costs associated with attending meetings outside Shetland or to bring people to Shetland to meet with the Group. However, it should be noted that, given the tight schedule to get this work underway, I made temporary arrangements to begin the work, which need to be endorsed.

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

- 2.1 The activity of the Agricultural Support Working Group will help to achieve outcomes for the Sustainable Economy section of the Corporate Plan. In particular, under the wealthier outcome “Shetland’s reputation for sustainable practices and quality products will be strengthened” a pledge is given to “maximise the production and quality of output from all progressive agricultural holdings.”

#### **3.0 Risk Assessment**

- 3.1 The risks associated with this report fall into the Political and Economic/Financial categories. There is a risk of developing poor relationships with Government departments and Ministers at national and EU level and also with other areas of Scotland and people who hold different opinions than ours on the future support for agriculture.

The main risk however would be a significant fall in the level of financial support for agriculture in Shetland post 2013 if our campaign is not successful.

#### **4.0 Background**

- 4.1 The EU is engaged in a review of the Common Agricultural Policy (CAP) and the levels of support that will be available for agriculture in the expanded EU at a time when there is pressure to reduce costs. In order to understand the Scottish perspective in this review the Scottish Government has been working for some years to identify what a future support system needs to achieve for farming in Scotland. An Inquiry Into Future Support For Agriculture In Scotland was commissioned by the Scottish Government in 2009. The Pack Inquiry as it is called published its interim report in early 2010. At that time the findings of the Inquiry met with general disapproval in Shetland as it seemed that the direction being taken favoured the larger arable farming systems in lowland Scotland. The consultation exercise that followed led to detailed comments from all over Scotland on the inequalities that would ensue if the system of support was changed along the lines of the Pack Inquiry's findings.
- 4.2 The level of concern was such in Shetland that the Council commissioned AB Associates, following a tendering exercise, to research what the best options for support might be post 2010.
- 4.3 In early November 2010 the Pack Inquiry published its final report (A separate report on short-term recommendations was issued in June to examine possible changes to the system before 2013). In general the final report is much less controversial than the earlier interim report was with more reasonable suggestions for change that should be more beneficial for the remoter and less fertile parts of Scotland.
- 4.4 AB Associates report was completed in Mid November 2010. It has examined both the short-term changes of the support system and the more important post 2013 opportunities and has made a number of recommendations for action that needs to be taken in order to pitch Shetland's case for agricultural support at a number of levels inside and outside Scotland. A summary of the AB Associates' report is attached as appendix one and a full version of the work can be read in electronic form only on the Coins system.

#### **5.0 Proposal**

- 5.1 The specific actions required to get the lobbying campaign underway are set out on pages ten/eleven of appendix one. I have set up a temporary group to make some progress on these actions because there was insufficient time to ask the Council to set up a more formal arrangement before the Christmas holidays. A number of contacts have been made and I will provide the Committee, at this meeting, with a verbal update on what has been achieved.

- 5.2 The proposals for the Committee are to: approve the actions detailed on pages ten/eleven of appendix one as the basis of the lobbying campaign; endorse my decision to set up a temporary working group and to begin the lobbying work before formal decisions were taken to do so; and, to set up the Agricultural Support Working Group as specified in appendix two. In addition a relatively small budget will need to be agreed and two Members will need to be nominated and appointed onto the Group. Attendance on the Working Group will be an approved duty for the members concerned.

## **6.0 Financial Implications**

- 6.1 The main expenditure associated with this activity was the preparation of the AB Associates report, which cost £8,125 and was coded to Agriculture General Assistance, RRD 1133.
- 6.2 It is estimated that the cost of lobbying the Scottish Government, UK Parliament and the EU should be achieved for under £7,000 (over a period of two years) based on taking groups of 3 or 4 people to Edinburgh (twice), London (once) and Brussels (once).
- 6.3 Any expenditure incurred that cannot be met from members' or officers' existing travel or subsistence budgets or, indeed, from the industry representatives own resources would be coded to RF1133 the Agricultural General Assistance budget. A sum of £1000 should be earmarked for this purpose for the remainder of 2010/11 while a sum of £3,000 should be required for 2011/12.

## **7.0 Potential Impact of a Lobbying Campaign**

- 7.1 The main aim of the lobbying campaign is to retain support for Shetland agriculture at or around the present levels, which is around £10M a year if non-agricultural Scottish Rural Development Plan measures are discounted. A significant reduction in the level of support would have serious consequences for the agricultural sector in Shetland and also on the rural service sector. For example, a loss of £1M in support on a long-term basis would have a consequent additional negative impact of £1.1M on the Shetland economy, making a net loss of £2.1 M. This would lead to a loss of 33 jobs in agriculture and a net loss of around 70 jobs in Shetland altogether. It is therefore a sensible precaution to present a strong case to retain agricultural support at or near present levels. A successful outcome from the proposed campaign would be retaining agricultural support at the £10M a year figure, at today's prices.

## **8.0 Policy and Delegated Authority**

- 8.1 This report has been prepared under the main aim of the Economic Development Policy Statement 2007-11,  
"To improve the quality of life of Shetland residents by promoting an environment in which traditional industries can thrive and innovate alongside newer emerging industries,"

approved by the Development Committee on 24 April 2008 (02/08) and by the Council on 14 May 2008 (55/08).

- 8.2 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.

## **9.0 Observations**

- 9.1 When I set up the temporary working group I invited Councillors Alastair Cooper and Jim Budge to represent the Council to begin the lobbying process. Both these councillors have skills and experience in lobbying externally for the benefit of local agriculture.
- 9.2 Work is continuing on the new Agricultural Strategy, which will be reported to a subsequent meeting. Many of the developments identified in the Agricultural Strategy will require a substantial investment from the local agricultural industry and will only be achieved if external support is available around present levels.

## **10.0 Conclusion**

- 10.1 Obtaining an equitable outcome for Shetland agriculture from the review of the future support system after 2013 is extremely important if Shetland is to retain an active agricultural sector and maintain rural population. It is therefore essential to make sure that Shetland's case is heard, perhaps in collaboration with other parts of the country, to encourage a debate that focuses on the needs of the remoter and less fertile agricultural regions of Scotland.

## **11.0 Recommendation**

- 11.1 I recommend that the Committee:
- a) accepts the actions shown on page ten/eleven of appendix one as the basis of a lobbying campaign to ensure an equitable future agricultural support system for Shetland beyond 2013 (along with any shorter term benefits that can be derived);
  - b) endorses the steps that the Head of Business Development has taken to begin the lobbying campaign in advance of a formal Council decision to do so;



- c) establishes an Agricultural Support Working Group, as detailed in appendix two;
- d) authorises expenditure of £4,000 from the Agricultural General Assistance budget RRD 1133 in addition to member/staff travel and subsistence to achieve the outcomes of the Working Group; and,
- e) Appoints two Members of the Development Committee to serve on the Working Group.

Our Ref: DI/KLM  
Date:19/01/11

Report No:DV001-F



## **Review of Agriculture Support System in Shetland**

### **Summary Report FINAL**

#### **Introduction**

The brief for this study was to produce a report that explores the options for the future support system for agriculture in Shetland and to make recommendations for a package of measures that will help to better sustain the industry in the future than the current system or proposals.

This has been done in the context of the wider reviews and analysis from the main industry bodies, Scottish Government, Pack Inquiry, European Parliament reports and European Commission papers. The proposals made take account of this wider picture and pitch suggestions for changes that are likely to be both more positive for Shetland agriculture and are likely to be achievable within the constraints of the wider system and policy considerations.

#### **Current System**

The development of the support system from a full coupled production subsidy to the current hybrid area payment based system is outlined in the main report with a quantification of what it has delivered over the years in terms of financial support to the industry in Shetland. In 2009 this amounted to £11m and represented more than half total farm income.

The current system has 4 main strands:-

- Single farm Payment (SFP): this is a direct payment decoupled from production based on eligible land area, and on activity in the period 2000-2002
- Less Favoured Area Scheme (LFASS): these are additional payments available in upland and island areas where agriculture is more marginal and less productive. Adjustments were made in 2009 with stock numbers updated and payments increased, and a variable minimum stock density applied depending on land quality. Shetland is categorised as a Very Fragile Area along with the other islands within the LFA and therefore is eligible for higher payment rates.
- Scottish Rural Development programme (SRDP): this is a competitive scheme available to those wishing to undertake new development, diversify, or agri environmental measures
- Crofting Schemes (CCAGS, CHGS): these provide support to crofters only, for new investment and housing

In addition more limited support has been available from the SIC in the order of £300-400,000 per annum for a range of approved state aid compliant schemes.

The main issues with the current system are perceived to be its unfairness, complexity, inbuilt uncertainties and delays, and lack of flexibility. Several measures are seen to be not appropriate and difficult to access for Shetland producers e.g. agri environ; LFASS compensation for handicaps is considered not a fair reflection of their intensity in the islands, the lack of access to support for people who started after 2003 is seen as a problem for young entrants, and the lack of an incentive to keep stock or improve land is also likely to have a negative effect on viability and thus on maintaining the landscape and environment.

### **Pack Inquiry**

The Pack inquiry was set up to identify the key issues and provide recommendations to address these issues. The interim proposals were considered likely to have an overall negative effect on Shetland agriculture although there was support for the move from the historic basis to the area basis and for support to be targeted at active farmers. The Final report has taken account of a number of the comments made in relation to aspects that would have a negative effect on areas likely Shetland and has moved the Inquiry position to a more balanced one that takes on board the wider role of agriculture and the problems facing the very fragile areas. The proposal to base the SFP on the Land Capability for Agriculture classification (LCA) has been dropped and it is proposed that different payment systems be set up for LFA and non LFA areas and that "Vulnerable Areas" be defined and supported.

It is suggested that producers in LFAs get access to:-

1. SFP on a low payment area basis
2. Top Up Fund payments based on Standard Labour Requirements (SLRs) based on meeting environmental and other targets
3. Headage schemes for calves and lambs
4. LFASS payments using money transferred from Pillar 2 to Pillar 1
5. In addition Vulnerable Areas are to be eligible for special payments from the remainder of the LFASS budget left in Pillar 2

### **CAP Reform**

The debate, on what should happen to the CAP and changes to the LFA system, has been ongoing and is reflected in a number of discussion papers and research reports from the European Commission and Parliament. The latest from the Commission suggests that:-

- Direct payments are to be more equitably distributed and become “greener”
- Farmers could be required to undertake more agri environmental activities
- LFASS is likely to continue and focus on “specific natural constraints”
- Support to small farmers to continue, and for addressing specific problems in certain regions
- There is likely to be stronger emphasis on “outcomes approach” i.e. support only given to deliver a service
- There is a need to improve farmers bargaining power in the food supply chain

There are a range of views within EU Member States and it is not yet clear which will prevail.

There is expected to be a continuing movement away from direct payments to wholly area based payments justified on the production of public goods (maintaining the countryside, landscape, biodiversity, water management) as well as maintaining “active” farming practice. The increasing emphasis on rural development is likely to ensure that the proposal for a revised LFA will attempt to focus on fewer fragile and disadvantaged areas with supplementary payments to compensate for natural handicaps that limit what can be produced.

### **Options and Conclusions on Support System for Shetland Agriculture**

Proposals for a fairer more equitable system for agriculture in Shetland and other peripheral, insular, and marginal areas, which are still in line with the principles in the CAP, have been developed on the basis of a three stage approach. This has been done in recognition of the fact that it is extremely difficult to achieve any radical changes to the system in the short term. Thus the industry will have to survive with the current system until after that date with only limited scope for minor adjustments for the remaining two years of the current programme i.e. 2012 and 2013. As a result it is suggested that action is taken to :-

1. **Maximise the Benefits of the current system and address the barriers to accessing funds by:-**
  - a. Increasing local support to crofters and farmers to access funds,

- b. making all the opportunities for funding more available to local crofters and farmers
- c. ensure all common grazings are actively managed in order to qualify for all payments,

**2. Seek MINOR modifications to the existing system to make it more accessible and beneficial in the short term pre 2014.**

- a. **SFP:** The main short term urgent issues that need to be addressed include:- the non eligibility of new entrants, and impact of defining ineligible areas. Thus the **recommended** priority actions are:-
  - i. Rebase SFP in short term before 2014 with a transitional system between historic and area based schemes e.g. to enable new entrants access
  - ii. Seek use of Article 68 to top up payments e.g. for low intensity cattle system, and land abandonment areas
  - iii. Seek a modification to the system to support the common management of common grazings rather than the current system that disadvantages it
  - iv. Recalculate area eligible for payment so that the existing payments are applied to the revised area
- b. **LFASS:** The main short term urgent issues here include:- the lack of a meaningful differential for islands in recognition of higher costs, the stock definition used for calculating density, and euro rate per hectare. Thus the **recommended** priority actions are:-
  - i. Seek introduction of a fairer euro rate per hectare for Scotland so that cost shared more 50/50 than 70/30 at the moment between the SG and EU.
  - ii. Seek a greater differentiation between the most fragile and the other LFA designations and further uplift of rates for very fragile areas i.e. islands. This should also be part of the longer term case for Vulnerable Areas developed under 3 below
  - iii. Seek a change in stock density related to the age of animals that qualify and “positive grazing management”. Currently the definition is limited to

breeding ewes and breeding cattle, with no fraction for animals being finished

- iv. Consider other forms of land use than simple grazing, as this permits managing for biodiversity, carbon sequestration, access, renewable energy production, and tourist developments. The current adoption of grazing as the only meaningful land use does not offer sufficient incentive, in the case of some large common grazings with high proportions of excluded land, to permit them to be economically managed. This will require some data gathering and analysis to support the case.
- c. **SRDP**: the main short term urgent issues that need to be addressed include:- simplification, further consideration of non-competitive LMOs, the difficulty of accessing agri environ measures, and the low ceiling on CCAGs. Thus the **recommended** priority actions are:-
  - i. Seek modifications to criteria for certain schemes to make them more accessible to the Shetland industry e.g. agri environment schemes, also undertake assessment of impact of ESA/RSS schemes in Shetland in support of case. The proposal by the SCF to transfer the agri environmental measures from the RP to LMO designed for crofting areas should be supported
- d. **Crofting** : CCAGS ; Make the case for continuing support and raising the grant threshold to reflect rising costs. CCAGS has been the backbone of support for crofting agriculture since 1955. There is evidence that it is becoming harder to access and this is leading to poor take up. It is recognised that there is a limit on levels of support, but a situation where the cost of managing and operating a scheme is quite disproportionate is undesirable in the current climate in particular. CCAGS should be supported and re-simplified

In addition the CHGS housing grant needs to be maintained and enhanced.

### **3.Seek more MAJOR longer term modifications to achieve a more sustainable agriculture in Shetland post 2013.**

The debate about what should happen post 2013 will commence in earnest after the publication of the Commission position in November thus there also needs to be an immediate focus on the longer term perspective.

There are many changes to the system that can be suggested to make it a fairer one for Shetland producers, to encourage a more sustainable industry, and to help meet the targets for carbon reduction and climate change. A long list is contained in the main report, however only the key actions that could make the most significant change are summarised here. These should form the central plank in any lobbying campaign and also take account of the Pack Final report recommendations.

- a. **LFASS: Very Fragile Areas or Vulnerable Areas:** The **number one priority** for Shetland must be to ensure that there is greater differentiation within the LFA and that Shetland, along with other islands and similar areas e.g. North West Highlands, is designated as the area with the most severe permanent handicaps but with potential to deliver significant public benefits, and therefore is eligible for special support. As a result the Pack report's proposal for Vulnerable Areas is supported as well as the retention of money in Pillar 2 for this purpose. It is expected that vigorous lobbying will be required on this point if there is to be any chance to get acceptance of the concept.

However it will be necessary to ensure that the criteria are appropriate, resources adequate, and systems for accessing the resources are equitable, simple, and straightforward. Shetland needs to be fully engaged in this process and seek alliances with other areas in order to strengthen the case.

Pack proposes to transfer part of the LFAS budget from Pillar 2 to Pillar 1 and to disburse it as a separate payment to top up the low SFP. As long as this does not mean a reduction in the total money available under LFAS and the system for distribution is fair then this proposal could be supported.

- b. **SFP Direct Support:** The main issues which need to be addressed by a new system include:- a sense that the current system is unjust, and also produces attrition, rather than encouraging policy and strategy driven change; the need to take account of local circumstances within the islands and the multi functional nature of agriculture activity; the need for more stability, and the need to provide adequate resources to compensate for handicaps and achieve the wider public goals.

Three different components are proposed by Pack:- SFP, Top Up Fund , and headage schemes. This immediately raises concerns about the level of bureaucracy that might be needed to oversee all these different components with different conditions and requirements. If three components are to be introduced they must be simple to



administer. Pack recognises the threat of LFA abandonment within his report. However what must be considered is not just the risk of “absolute abandonment” but of abandonment of fertility and the principals of capacity for crop production. It is suggested that a more appropriate and accurate system for LFA support should be explored such as, targeted area payments which better reflect and reward different agricultural uses e.g. permanent pasture, new grass, crops and rough grazing. The scheme should be administered through the data which is already supply on the IACS forms. This will require a radical shift in policy and an acceptance of some risk, however it is recommended that this course be pursued

If three components have to be considered then the following observations are made:-

- a. **SFP:** The level this is set at is critical. It is probably too low as suggested though it depends on the other components and the calculation of eligible land. The inclusion of land subject to an environmental scheme, as well as being actively farmed, is welcomed.
- b. **TUF:** The principle of supporting active farmers through rewarding effort is supported however it is clear that Standard Labour Units will not deliver a fair result as currently defined. The figures presented could mean many crofters being worse off. Also it is not clear how this would relate to delivery of public goods such as agri environment measures as suggested in the report.

The SLR to be used would need to be carefully tailored to the different types of farming and physical conditions experienced in the LFAs. The Pack recommendation that the definition be revisited is supported, and it will be necessary to become closely involved in this process.

- c. **Headage:** While the proposed headage schemes are supported and are technically possible, it is expected that the SG and UK officials will need robust support as there may be some opposition to the proposal. It is suggested that, if they are to be pursued, then payments should apply to all sheep, cattle and calves. It is also believed that fears of encouraging overstocking in order to receive larger payments are unfounded. Limits are already applied through the grazing density figures and could be easily modified.
- d. It is important that all support systems should be complimentary, and that they can all deliver on global challenges and Scottish priorities. They should encourage more finishing of stock in the LFA as well as local food production and consumption. This would encourage more biodiversity, and reduce food miles, as well as supporting healthy food consumption. At the moment it is

not easy to achieve this within the current system. This action would be in accord with the overall aim of promoting sustainable economic development while maintaining and enhancing biodiversity.

Other suggested actions and changes include:-

- e. A ceiling on SFP to be set overall in order that a fairer system is affordable
  - f. Stock density figures should recognise individual circumstances and land capacity, other use factors require to be recognised and rewarded, and area must be recalculated so that overall support is not reduced due to ineligible land being removed.
  - g. Seek the inclusion of the production of public goods and climate change amelioration into SFP calculation
  - h. Seek to have payments linked to the land rather than to a person, so that entitlements not tradable
  - i. Seek support for HNV and organic low input systems and other sustainable practices, or sustainable farm/croft scheme that would support a transition to “greener” farming
  - j. Seek targeted agri environment schemes to address specific issues
  - k. Revisit Art 68 to help encourage more cattle or HNV farming or an upland Land Managers Option
  - l. Seek the inclusion of land used for horticulture as being eligible for SFP
- c. **SRDP:** The main issues which suggest major changes are needed include:-need to ensure the new set up is less complex and more accessible for smaller farmers and crofters, and can adapt to different circumstances in different regions, and need to set up non competitive agri environ scheme. Thus the **recommended** priority actions are:-
- a. New SRDP post 2013 to be designed with a much simpler system that is accessible to all crofters and farmers
  - b. Introduce a non competitive system for agri environment support so long as meet criteria laid down and comply with specific requirements regarding usage and management.
  - c. Need support for production of Public Goods, both environmental services such as reducing greenhouse gases, protecting biodiversity, and land

management services such as landscape maintenance and compensation for extra costs in disadvantaged areas with non productive agriculture. Press Scottish Government to make progress on setting a value on public goods

d. **Crofting:**

- a. CCAGS: ensure that continues to be an eligible scheme for crofters post 2013
- b. CHGS: This scheme is considered vital to help maintain people in rural areas and help young people starting in crofting. Press Scottish Government to publish the results of the ongoing review, now pending for three years or so
- c. ensuring that the EC proposal for aid to small farmers is applicable and appropriate to crofters and that Scottish Government takes advantage of such opportunities as exists.

Clearly an ideal system for Shetland agriculture could be one where it was easier for all holdings to access funding and where more resources were available. While this may never be easy, it could be more achievable if the Vulnerable Areas concept is adopted.

The main components of a modified support system more suited to Shetland agriculture circumstances needs to take account of the diversity within the islands and the different needs of small crofters as well as the larger farmers. Thus the emphasis should be on fairness and parity and on careful optimal targeting of what support could be available to meet different regional needs and to help achieve a more sustainable industry along with higher levels of income from sales of produce. In order to comply with the CAP post 2013 it will be necessary to have a stronger focus on defining and achieving “outcomes” for all the public money spent on the industry.

### **Recommendations for Lobbying Action**

The proposals and modifications to the current support system suggested above have been discussed and broadly agreed by the industry locally. Thus the essential **first step** which is to get the industry behind the proposals for change has already been taken. The SIC needs now to adopt the proposals and it is **recommended** that Shetland seeks alliances, in the first instance with the local authorities in the Highlands and Islands, and then with other agencies and NGOs and EU wide bodies.

It is **recommended** that the first action should be responding to the Pack Final report launched on the 5<sup>th</sup> November. Shetland could make its own response, however it would be desirable if a joint response was also submitted from the H&Is.

It is **recommended** that a lobbying team should be set up and a lobbying strategy and plan drawn up based on what is in this report. This should include dates for targeting key players

such as Scottish MSPs, Ministers, MPs, and Rural Spokespersons for all parties. The team should be a small one that includes around 4 industry representatives and two from the Council.

Up to date data is vital to support a lobbying campaign as well as supporting evidence from studies and monitoring activities e.g. what has been achieved by recent actions and what could be achieved by changes. It should be possible to update the data in the report when 2010 figures become available. It is **recommended** that this should be built into the process.

It will be important to make direct representations and responses to Defra and to Brussels well before there is any agreement on the framework for the CAP reform which could be agreed by next summer

It may also be relevant as part of this exercise, which is seeking to maximise the external funds to the agriculture sector, to consider other potential sources of external funds to help support the sector locally, whether this is from EU or national sources. It is **recommended** this is taken on board.

In summary the following actions are **recommended**:-

1. Seek support and endorsement of all local industry bodies (already done)
2. SIC to adopt the proposals (Dec 2010)
3. Set up a local lobbying group to take action forward (Dec 2010)
4. Create a timetable with the key dates for influencing changes (Dec 2010)
5. Use proposals to respond to Pack Final Report and to Government response to Pack Inquiry which likely to be about 6 weeks after publication of report (Jan 2011)
6. Present the package of proposals for changes to Scottish Government (SGRPID and Minister responsible) and Cross party Group as early as possible (Jan 2010), and again after the elections in May 2011
7. Present package of proposals to relevant MSPs (all parties to influence manifestos), local MP, and Scottish MEPs (Dec 2010)
8. Seek support from other areas such as local authorities in Western Isles, Orkney, and North West Highlands and use as basis for undertaking joint lobbying on SFP and LFASS, and SRDP (Dec 2010)
9. Seek support and alliances with regional agencies and NGOs: e.g. HIE, SNH, RSPB in Scotland, and Euromontana, and CPMR at EU level (early 2011)
10. Submit proposals to DEFRA and arrange meetings (Jan 2010)

11. Use proposals to respond to EU Communication on CAP reform to be issued in November (Feb 2011)
12. Submit proposals to DGAGRI and EU Parliament Agric and Rural Development Committee (Spring 2011)



## **Agricultural Support Group**

### Terms of Remit

1. Purpose – The Agricultural Support Working Group (the Group) has been established to:

a) make Shetland's case to the Scottish Government, UK Government and EU for an equitable system of Agricultural Support in Scotland beyond changes in the Common Agricultural Policy in 2013.

b) Seek changes in the present agricultural support system to the benefit of Shetland agriculture.

2. Duration – The Group will operate until it's purpose has been achieved or until 31 December 2012, whichever occurs first.

3. Membership – The Group will consist of the following members:

2 Shetland Islands Councillors (appointed by Development Committee)  
1 representative of NFU Shetland  
1 representative of Scottish Crofting Foundation  
1 representative of Shetland Livestock Marketing Group  
1 representative of Crofters Commission  
Head of Business Development

Others members may be co-opted from time to time by the Group depending on the specific nature of tasks to be undertaken.

The work of the Group is recognised as an approved duty for Shetland Island Council members.

4. Reporting – The Group will report to the Agricultural Panel.

5. Secretarial Duties – All administration/secretarial functions shall be undertaken by the Economic Development Unit.





# **Review of Future Agriculture Support System in Shetland**

**FINAL  
MAIN REPORT**

**19<sup>th</sup> November 2010**

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## **Executive Summary**

### **Introduction**

The brief for this study was to produce a report that explores the options for the future support system for agriculture in Shetland and to make recommendations for a package of measures that will help to better sustain the industry in the future than the current system or proposals.

This has been done in the context of the wider reviews and analysis from the main industry bodies, Scottish Government, Pack Inquiry, European Parliament reports and European Commission papers. The proposals made take account of this wider picture and pitch suggestions for changes that are likely to be both more positive for Shetland agriculture and are likely to be achievable within the constraints of the wider system and policy considerations.

### **Current System**

The development of the support system from a full coupled production subsidy to the current hybrid area payment based system is outlined in the main report with a quantification of what it has delivered over the years in terms of financial support to the industry in Shetland. In 2009 this amounted to £11m and represented more than half total farm income.

The current system has 4 main strands:-

- Single farm Payment (SFP): this is a direct payment decoupled from production based on eligible land area, and on activity in the period 2000-2002
- Less Favoured Area Scheme (LFASS): these are additional payments available in upland and island areas where agriculture is more marginal and less productive. Adjustments were made in 2009 with stock numbers updated and payments increased, and a variable minimum stock density applied depending on land quality. Shetland is categorised as a Very Fragile Area along with the other islands within the LFA and therefore is eligible for higher payment rates.
- Scottish Rural Development programme (SRDP): this is a competitive scheme available to those wishing to undertake new development, diversify, or agri environmental measures
- Crofting Schemes (CCAGS, CHGS): these provide support to crofters only, for new investment and housing

In addition more limited support has been available from the SIC in the order of £300-400,000 per annum for a range of approved state aid compliant schemes.

The main issues with the current system are perceived to be its unfairness, complexity, inbuilt uncertainties and delays, and lack of flexibility. Several measures are seen to be not appropriate and difficult to access for Shetland producers e.g. agri environ; LFASS compensation for handicaps is considered not a fair reflection of their intensity in the islands, the lack of access to support for people who started after 2003 is seen as a problem for young entrants, and the lack of an incentive to keep stock or improve land is also likely to have a negative effect on viability and thus on maintaining the landscape and environment.

### **Pack Inquiry**

The Pack inquiry was set up to identify the key issues and provide recommendations to address these issues. The interim proposals were considered likely to have an overall negative effect on Shetland agriculture although there was support for the move from the historic basis to the area basis and for support to be targeted at active farmers. The Final report has taken account of a number of the comments made in relation to aspects that would have a negative effect on areas likely Shetland and has moved the Inquiry position to a more balanced one that takes on board the wider role of agriculture and the problems facing the very fragile areas. The proposal to base the SFP on the Land Capability for Agriculture classification (LCA) has been dropped and it is proposed that different payment systems be set up for LFA and non LFA areas and that “Vulnerable Areas” be defined and supported.

It is suggested that producers in LFAs get access to:-

1. SFP on a low payment area basis
2. Top Up Fund payments based on Standard Labour Requirements (SLRs) based on meeting environmental and other targets
3. Headage schemes for calves and lambs
4. LFASS payments using money transferred from Pillar 2 to Pillar 1
5. In addition Vulnerable Areas are to be eligible for special payments from the remainder of the LFASS budget left in Pillar 2

### **CAP Reform**

The debate, on what should happen to the CAP and changes to the LFA system, has been ongoing and is reflected in a number of discussion papers and research reports from the European Commission and Parliament. The latest from the Commission suggests that:-

- Direct payments are to be more equitably distributed and become “greener”

- Farmers could be required to undertake more agri environmental activities
- LFASS is likely to continue and focus on “specific natural constraints”
- Support to small farmers to continue, and for addressing specific problems in certain regions
- There is likely to be stronger emphasis on “outcomes approach” i.e. support only given to deliver a service
- There is a need to improve farmers bargaining power in the food supply chain

There are a range of views within EU Member States and it is not yet clear which will prevail.

There is expected to be a continuing movement away from direct payments to wholly area based payments justified on the production of public goods (maintaining the countryside, landscape, biodiversity, water management) as well as maintaining “active” farming practice. The increasing emphasis on rural development is likely to ensure that the proposal for a revised LFA will attempt to focus on fewer fragile and disadvantaged areas with supplementary payments to compensate for natural handicaps that limit what can be produced.

### **Options and Conclusions on Support System for Shetland Agriculture**

Proposals for a fairer more equitable system for agriculture in Shetland and other peripheral, insular, and marginal areas, which are still in line with the principles in the CAP, have been developed on the basis of a three stage approach. This has been done in recognition of the fact that it is extremely difficult to achieve any radical changes to the system in the short term. Thus the industry will have to survive with the current system until after that date with only limited scope for minor adjustments for the remaining two years of the current programme i.e. 2012 and 2013. As a result it is suggested that action is taken to :-

1. **Maximise the Benefits of the current system and address the barriers to accessing funds** by:-
  - a. Increasing local support to crofters and farmers to access funds,
  - b. making all the opportunities for funding more available to local crofters and farmers
  - c. ensure all common grazings are actively managed in order to qualify for all payments,

**2. Seek MINOR modifications to the existing system to make it more accessible and beneficial in the short term pre 2014.**

- a. **SFP:** The main short term urgent issues that need to be addressed include:- the non eligibility of new entrants, and impact of defining ineligible areas. Thus the **recommended** priority actions are:-
- i. Rebase SFP in short term before 2014 with a transitional system between historic and area based schemes e.g. to enable new entrants access
  - ii. Seek use of Article 68 to top up payments e.g. for low intensity cattle system, and land abandonment areas
  - iii. Seek a modification to the system to support the common management of common grazings rather than the current system that disadvantages it
  - iv. Recalculate area eligible for payment so that the existing payments are applied to the revised area
- b. **LFASS:** The main short term urgent issues here include:- the lack of a meaningful differential for islands in recognition of higher costs, the stock definition used for calculating density, and euro rate per hectare. Thus the **recommended** priority actions are:-
- i. Seek introduction of a fairer euro rate per hectare for Scotland so that cost shared more 50/50 than 70/30 at the moment between the SG and EU.
  - ii. Seek a greater differentiation between the most fragile and the other LFA designations and further uplift of rates for very fragile areas i.e. islands. This should also be part of the longer term case for Vulnerable Areas developed under 3 below
  - iii. Seek a change in stock density related to the age of animals that qualify and “positive grazing management”. Currently the definition is limited to breeding ewes and breeding cattle, with no fraction for animals being finished
  - iv. Consider other forms of land use than simple grazing, as this permits managing for biodiversity, carbon sequestration, access, renewable energy production, and tourist developments. The current adoption of grazing as the only meaningful land use does not offer sufficient incentive, in the case of some large common grazings with high proportions of excluded land, to permit them to be economically

managed. This will require some data gathering and analysis to support the case.

- c. **SRDP:** the main short term urgent issues that need to be addressed include:- simplification, further consideration of non-competitive LMOs, the difficulty of accessing agri environ measures, and the low ceiling on CCAGs. Thus the **recommended** priority actions are:-
  - i. Seek modifications to criteria for certain schemes to make them more accessible to the Shetland industry e.g. agri environment schemes, also undertake assessment of impact of ESA/RSS schemes in Shetland in support of case. The proposal by the SCF to transfer the agri environmental measures from the RP to LMO designed for crofting areas should be supported
- d. **Crofting :** CCAGS ; Make the case for continuing support and raising the grant threshold to reflect rising costs. CCAGS has been the backbone of support for crofting agriculture since 1955. There is evidence that it is becoming harder to access and this is leading to poor take up. It is recognised that there is a limit on levels of support, but a situation where the cost of managing and operating a scheme is quite disproportionate is undesirable in the current climate in particular. CCAGS should be supported and re-simplified

In addition the CHGS housing grant needs to be maintained and enhanced.

### **3.Seek more MAJOR longer term modifications to achieve a more sustainable agriculture in Shetland post 2013.**

The debate about what should happen post 2013 will commence in earnest after the publication of the Commission position in November thus there also needs to be an immediate focus on the longer term perspective.

There are many changes to the system that can be suggested to make it a fairer one for Shetland producers, to encourage a more sustainable industry, and to help meet the targets for carbon reduction and climate change. A long list is contained in the main report, however only the key actions that could make the most significant change are summarised here. These should form the central plank in any lobbying campaign and also take account of the Pack Final report recommendations.

- a. **LFASS: Very Fragile Areas or Vulnerable Areas:** The **number one priority** for Shetland must be to ensure that there is greater differentiation within the LFA and that Shetland, along with other islands and similar areas e.g. North West Highlands, is designated as the area with the most severe permanent handicaps but with



potential to deliver significant public benefits, and therefore is eligible for special support. As a result the Pack report's proposal for Vulnerable Areas is supported as well as the retention of money in Pillar 2 for this purpose. It is expected that vigorous lobbying will be required on this point if there is to be any chance to get acceptance of the concept.

However it will be necessary to ensure that the criteria are appropriate, resources adequate, and systems for accessing the resources are equitable, simple, and straightforward. Shetland needs to be fully engaged in this process and seek alliances with other areas in order to strengthen the case.

Pack proposes to transfer part of the LFAS budget from Pillar 2 to Pillar 1 and to disburse it as a separate payment to top up the low SFP. As long as this does not mean a reduction in the total money available under LFAS and the system for distribution is fair then this proposal could be supported.

- b. **SFP Direct Support:** The main issues which need to be addressed by a new system include:- a sense that the current system is unjust, and also produces attrition, rather than encouraging policy and strategy driven change; the need to take account of local circumstances within the islands and the multi functional nature of agriculture activity; the need for more stability, and the need to provide adequate resources to compensate for handicaps and achieve the wider public goals.

Three different components are proposed by Pack:- SFP, Top Up Fund , and headage schemes. This immediately raises concerns about the level of bureaucracy that might be needed to oversee all these different components with different conditions and requirements. If three components are to be introduced they must be simple to administer. Pack recognises the threat of LFA abandonment within his report. However what must be considered is not just the risk of "absolute abandonment" but of abandonment of fertility and the principals of capacity for crop production. It is suggested that a more appropriate and accurate system for LFA support should be explored such as, targeted area payments which better reflect and reward different agricultural uses e.g. permanent pasture, new grass, crops and rough grazing. The scheme should be administered through the data which is already supply on the IACS forms. This will require a radical shift in policy and an acceptance of some risk, however it is recommended that this course be pursued

If three components have to be considered then the following observations are made:-

- a. **SFP:** The level this is set at is critical. It is probably too low as suggested though it depends on the other components and the calculation of eligible land. The inclusion of land subject to an environmental scheme, as well as being actively farmed, is welcomed.
- b. **TUF:** The principle of supporting active farmers through rewarding effort is supported however it is clear that Standard Labour Units will not deliver a fair result as currently defined. The figures presented could mean many crofters being worse off. Also it is not clear how this would relate to delivery of public goods such as agri environment measures as suggested in the report.

The SLR to be used would need to be carefully tailored to the different types of farming and physical conditions experienced in the LFAs. The Pack recommendation that the definition be revisited is supported, and it will be necessary to become closely involved in this process.

- c. **Headage:** While the proposed headage schemes are supported and are technically possible, it is expected that the SG and UK officials will need robust support as there may be some opposition to the proposal. It is suggested that, if they are to be pursued, then payments should apply to all sheep, cattle and calves. It is also believed that fears of encouraging overstocking in order to receive larger payments are unfounded. Limits are already applied through the grazing density figures and could be easily modified.
- d. It is important that all support systems should be complimentary, and that they can all deliver on global challenges and Scottish priorities. They should encourage more finishing of stock in the LFA as well as local food production and consumption. This would encourage more biodiversity, and reduce food miles, as well as supporting healthy food consumption. At the moment it is not easy to achieve this within the current system. This action would be in accord with the overall aim of promoting sustainable economic development while maintaining and enhancing biodiversity.

Other suggested actions and changes include:-

- e. A ceiling on SFP to be set overall in order that a fairer system is affordable
- f. Stock density figures should recognise individual circumstances and land capacity, other use factors require to be recognised and rewarded, and area must be recalculated so that overall support is not reduced due to ineligible land being removed.
- g. Seek the inclusion of the production of public goods and climate change amelioration into SFP calculation

- h. Seek to have payments linked to the land rather than to a person, so that entitlements not tradable
  - i. Seek support for HNV and organic low input systems and other sustainable practices, or sustainable farm/croft scheme that would support a transition to “greener” farming
  - j. Seek targeted agri environment schemes to address specific issues
  - k. Revisit Art 68 to help encourage more cattle or HNV farming or an upland Land Managers Option
  - l. Seek the inclusion of land used for horticulture as being eligible for SFP
- c. **SRDP:** The main issues which suggest major changes are needed include:-need to ensure the new set up is less complex and more accessible for smaller farmers and crofters, and can adapt to different circumstances in different regions, and need to set up non competitive agri environ scheme. Thus the **recommended** priority actions are:-
- a. New SRDP post 2013 to be designed with a much simpler system that is accessible to all crofters and farmers
  - b. Introduce a non competitive system for agri environment support so long as meet criteria laid down and comply with specific requirements regarding usage and management.
  - c. Need support for production of Public Goods, both environmental services such as reducing greenhouse gases, protecting biodiversity, and land management services such as landscape maintenance and compensation for extra costs in disadvantaged areas with non productive agriculture. Press Scottish Government to make progress on setting a value on public goods
- d. **Crofting:**
- a. CCAGS: ensure that continues to be an eligible scheme for crofters post 2013
  - b. CHGS: This scheme is considered vital to help maintain people in rural areas and help young people starting in crofting. Press Scottish Government to publish the results of the ongoing review, now pending for three years or so
  - c. ensuring that the EC proposal for aid to small farmers is applicable and appropriate to crofters and that Scottish Government takes advantage of such opportunities as exists.

Clearly an ideal system for Shetland agriculture could be one where it was easier for all holdings to access funding and where more resources were available. While this may never be easy, it could be more achievable if the Vulnerable Areas concept is adopted.

The main components of a modified support system more suited to Shetland agriculture circumstances needs to take account of the diversity within the islands and the different needs of small crofters as well as the larger farmers. Thus the emphasis should be on fairness and parity and on careful optimal targeting of what support could be available to meet different regional needs and to help achieve a more sustainable industry along with higher levels of income from sales of produce. In order to comply with the CAP post 2013 it will be necessary to have a stronger focus on defining and achieving “outcomes” for all the public money spent on the industry.

### **Recommendations for Lobbying Action**

The proposals and modifications to the current support system suggested above have been discussed and broadly agreed by the industry locally. Thus the essential **first step** which is to get the industry behind the proposals for change has already been taken. The SIC needs now to adopt the proposals and it is **recommended** that Shetland seeks alliances, in the first instance with the local authorities in the Highlands and Islands, and then with other agencies and NGOs and EU wide bodies.

It is **recommended** that the first action should be responding to the Pack Final report launched on the 5<sup>th</sup> November. Shetland could make its own response, however it would be desirable if a joint response was also submitted from the H&Is.

It is **recommended** that a lobbying team should be set up and a lobbying strategy and plan drawn up based on what is in this report. This should include dates for targeting key players such as Scottish MSPs, Ministers, MPs, and Rural Spokespersons for all parties. The team should be a small one that includes around 4 industry representatives and two from the Council.

Up to date data is vital to support a lobbying campaign as well as supporting evidence from studies and monitoring activities e.g. what has been achieved by recent actions and what could be achieved by changes. It should be possible to update the data in the report when 2010 figures become available. It is **recommended** that this should be built into the process.

It will be important to make direct representations and responses to Defra and to Brussels well before there is any agreement on the framework for the CAP reform which could be agreed by next summer

It may also be relevant as part of this exercise, which is seeking to maximise the external funds to the agriculture sector, to consider other potential sources of external funds to help support the sector locally, whether this is from EU or national sources. It is **recommended** this is taken on board.

In summary the following actions are **recommended**:-

1. Seek support and endorsement of all local industry bodies (already done)
2. SIC to adopt the proposals (Dec 2010)
3. Set up a local lobbying group to take action forward (Dec 2010)
4. Create a timetable with the key dates for influencing changes (Dec 2010)
5. Use proposals to respond to Pack Final Report and to Government response to Pack Inquiry which likely to be about 6 weeks after publication of report (Jan 2011)
6. Present the package of proposals for changes to Scottish Government (SGRPID and Minister responsible) and Cross party Group as early as possible (Jan 2010), and again after the elections in May 2011
7. Present package of proposals to relevant MSPs (all parties to influence manifestos), local MP, and Scottish MEPs (Dec 2010)
8. Seek support from other areas such as local authorities in Western Isles, Orkney, and North West Highlands and use as basis for undertaking joint lobbying on SFP and LFASS, and SRDP (Dec 2010)
9. Seek support and alliances with regional agencies and NGOs: e.g. HIE, SNH, RSPB in Scotland, and Euromontana, and CPMR at EU level (early 2011)
10. Submit proposals to DEFRA and arrange meetings (Jan 2010)
11. Use proposals to respond to EU Communication on CAP reform to be issued in November (Feb 2011)
12. Submit proposals to DGAGRI and EU Parliament Agric and Rural Development Committee (Spring 2010)





# 1. Introduction

## 1.1 Brief

Shetland Islands Council has commissioned this study in order to explore the options for future support systems for agriculture in Shetland in the light of the Pack Inquiry and other proposals for changes to the CAP support system over the next few years and particularly after 2013. The tasks identified in the brief include:-

- *Research how the present system of agricultural support operates in Shetland and establish what works well for Shetland holdings and the elements that do not work so well.*
- *Estimate the impact of the Pack Inquiry proposals, should they ever be adopted, on the support that is received by Shetland holdings currently.*
- *Identify the proposals in the Pack inquiry that pose problems for Shetland and those that may be beneficial.*
- *Recommend proposals for a future support package of measures that will retain Shetland's agricultural activities at its present levels.*
- *Prepare an evidence based report on the work outputs in a manner that can be used by Shetland Islands Council to negotiate with Government agencies and the EU to achieve an equitable system for future agricultural support in Shetland.*

## 1.2 Background

Agriculture has been changing significantly over the last 10 years and is now no longer able to stand alone as an industry sector in policy terms. It has to become more integrated into the wider rural development framework, with local food production and supply, and is also increasingly required to embrace its wider environmental management role, and to produce appropriate public goods. The sector provides an important underpinning to many rural communities that would have difficulty surviving without it.

Shetland agriculture has been and is dominated by sheep production, however some of the recent policy changes have resulted in a significant decline in sheep numbers in Shetland (around 27% in total numbers and nearly 40% in exports from 2004 to 2008), though low prices and environmental schemes will also have had an effect. Proposals for further regulations regarding transport and electronic tagging could have further negative effects on numbers, and although a recent uplift in prices has stabilised the situation, the actual effect on overall economics is at least open to question. However there are other things happening that could have a more positive effect such as a modified LFA scheme, changes to the single farm payment, and market demand. There are opportunities as well as challenges.



One of the main drivers of the sector in Shetland, that has strongly influenced the scale and nature of agriculture, has been the support system, for example the changes in number of sheep and environmental projects

The support to Shetland agriculture from the current system has been substantial, such that without it the industry is likely to have been considerably smaller than it is today. It is therefore not surprising that there is strong support for retention of the SFP, LFASS, and SRDP from those consulted on the agriculture strategy recently. However there were serious concerns about the system as well which are explored in Section 2 that follows.

### **1.3 Approach**

The main approach to be adopted is largely desk based research, using the results of questionnaires and consultation for the agriculture strategy. This is supplemented where necessary with further consultation and discussions with the key agencies, government and EU departments, and EU Parliament Agriculture Committee Members.

The current system is analysed for the pros and cons from the perspective of Shetland agriculture along with a review of the responses to various government consultations. The Pack proposals are also reviewed for their likely impact on Shetland agriculture as well as the indications emerging from Brussels regarding the post 2013 position.

The results of this process will be brought together in a package of proposals for a support system, within overall EU policy constraints, that would be more positive for Shetland agriculture and could provide a basis for lobbying for changes to the system to take account of the different geographic circumstances in the islands.

## 2. Baseline Analysis

### 2.1 Current System and Levels of Support

The Common Agricultural Policy (CAP) was originally established to increase agriculture output and productivity, stabilise the markets and produce a fair standard of living for those in the industry. While initially it did have many successes, the focus on increasing production led to surpluses being created and high public costs. The CAP has as a result undergone a series of reforms in 1992, 1999, and 2003, all of which have tried to move the sector towards less dependency on subsidies and to a more market orientated position.

The Agenda 2000 reforms introduced the two pillar concept with one being production support and the other rural development, while the 2003 reforms moved further with decoupling support payments from production and introduced the Single Farm Payment (SFP) to be a simpler system based on area rather than headage. This is still complemented by a Less Favoured Area payment set up to compensate producers in remote/peripheral areas where agricultural is more marginal. Payments were also introduced for carrying out work to maintain and enhance the environment and biodiversity e.g. ESA and Rural Stewardship schemes.

The Pillar concept adopted in the 2000-2006 period was developed further in the Rural Development Regulation 1698/2005 that provided the framework for the current period and the Scottish Rural Development Programme 2007-2013. It contains 4 axes under which funding is available:-

1. Direct support to agriculture to improve viability
2. Support for environment and countryside through land management measures
3. Diversification of the rural economy through support for micro enterprises, basic services, conservation of heritage and training
4. Leader programme

The SRD Programme has three key components:-

1. **Rural Development Contracts** – central part of integrated approach linking SFP under Pillar 1 and support under Pillar 2 (SRDP). RDCs include three tiers of support
  - 1.1 SFP and Cross Compliance (100% EU funded)
  - 1.2 Land Management Options
  - 1.3 A number of previous schemes rolled into one

It is generally felt that there are three reasons why access to agri environment and other measures under SRDP have been problematic. They all stem from the same source, i.e. that the SRDP is :-

Firstly a highly competitive and vastly complex scheme, consisting of a very large number of diverse measures, previously operated as stand alone schemes.

Secondly, there is a shortage of consultants capable of navigating the complexity, which does not stop at lodging an application, but continues in terms of queries and negotiation of points for some time.

Thirdly, Shetland, though of considerable conservation value, tends to be short on ranges of species present and hence on the essentials for generating points in a points based competitive system. This means that areas which may be categorised as being of national or international importance can fail to qualify.

2. **Less Favoured Area Status** – compensates farmers and crofters for permanent physical disadvantages e.g. upland, remote and island areas (30% EU and 70% SG). 57% of the Utilised Agriculture Area in the EU is classified as LFA and 84% in Scotland.

UK hill farmers have received additional government support since the 1940s. This additional support for hill farmers in LFAs has formed part of the Common Agricultural Policy (CAP) since 1975. Farmers in LFAs were supported through the Hill Livestock Compensatory Allowance (HLCA) from 1975 until 2000. The HLCA was an annual headage payment paid per beef cow or breeding ewe kept in the LFA. The scheme was thought to have resulted in overstocking in some areas, resulting in overgrazing, and so from 2001 onwards, LFA support has had to be paid on an area basis.

The scheme was changed in 2005 (EC reg 1698/2005). Instead of having different payment rates for improved grassland and rough grazing in different types of area, LFA farms were assigned into different payment categories based on their stocking densities. These are very fragile areas which are island areas within the LFA; Fragile areas that are mainland areas which are more disadvantaged by higher transport costs due to their remoteness; and all other LFA land that is classified as “Standard” LFA.

Responding to criticism from the Court of Auditors and following on from a lengthy period of discussion and consultation, the European Commission has proposed the standardisation of criteria for the delimitation of LFAs, to be called Natural Handicap Areas (NHAs) from now on. The classification criteria for Mountain LFAs are not affected.

All socio-economic criteria for determining these intermediate LFAs have been dropped – only soil, climate and terrain criteria can now be used to justify support through the measure, and the thresholds for these are, it is proposed, to be set at the EU level. At the present Member States use different index systems to designate LFAs or use proxies of poor

land productivity, thus resulting in very different outcomes in terms of the types of areas covered by LFAs.

The need to still take account of socio economic criteria such as depopulation, insularity, low agriculture incomes, and few alternatives should be included in any lobbying case. The threshold values could be critical as well as geographic area used. It is also suggested that the cumulative effect of these criteria should be taken into account rather than just one criteria being above the threshold to qualify.

A major concern, but one long since clearly flagged, is the dropping of distance to market – peripherality – as a recognised physical handicap. The logic seems to be that the costs associated with distance can be overcome through appropriate fiscal measures or public support – the costs of ferry transport, for example – while ‘the market’ is itself a very fluid concept.

Arguments that other costs, such as those imposed by tachograph or working time or animal transport rules or the uncertainties and costs of sailings cancelled due to weather are real and in addition to the cost of the transport itself, have fallen on deaf ears.

The Commission’s position seems to be that such areas are more appropriately managed by the ‘Areas with Specific Handicaps’ measure.

One solution would appear to be to explore the possibility of using Article 18 of Regulation 1267/99 to designate mountain areas and Article 20 to designate islands as areas with specific handicaps. This would solve the problem of setting appropriate ceilings for Shetland, would include Orkney, and the other very fragile areas currently designated. It is recommended that Shetland adopts this position, but also considers discussions with other areas which would certainly qualify, e.g. the north and west highlands. The consequences of this for the overall budget would require discussion with RPID officials

In April 2009, the European Commission adopted a Communication paving the way for a new classification of agricultural areas with natural handicaps. In this, the Commission identified 8 soil and climate criteria as a basis for objectively and clearly classifying such areas. However, before presenting a legislative proposal, the Commission decided that it needed more data to assess their feasibility. Therefore, Member States were asked to provide simulations using national data to show how the criteria might work. The new classification system is likely to be in place in 2014; meanwhile the current system remains in force. **This review exercise does not affect mountain areas (already classified based on objective common criteria) or areas with specific handicaps (e.g. islands and coastal areas) which are classified according to those specific handicaps.** The sentence in bold is of great importance to this position preparation, as it makes clear that Shetland can, legally, be so classified, with the concomitant relaxation on support limitations.

It is suggested that EU subsidies to preserve farming in such areas should be reserved for those areas where natural handicaps are severe and affect farming. The way aid is distributed to farms in these areas should also target farms most at risk of land abandonment.

There was a 19% increase in the LAFSS payment in 2009 for the fragile and very fragile areas. This has gone up again in 2010 by a further 19%.

Further changes have been introduced for the 2011 payments. A new grazing category is to be offered so that new claimants can get LFASS and inactive farmers will get nothing. A new economic sheep farm LMO scheme has also been introduced to fund handling facilities, and a variable minimum stock density is to be introduced based on land quality.

Some of the main issues regarding the LFASS payments include:-

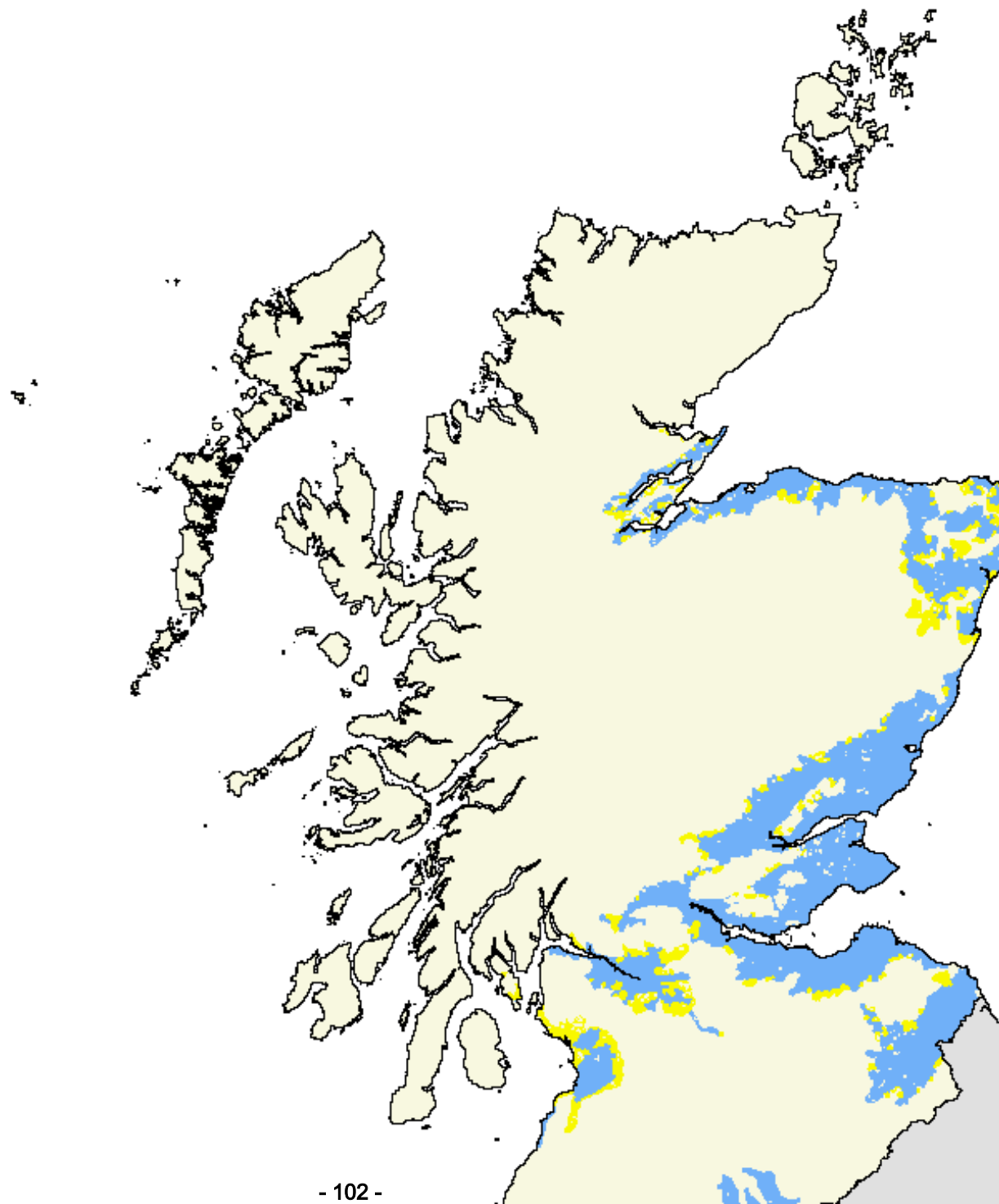
- Minimum stock density (currently this is 0.68LU/ha up until 2013)
- Differential rates between very fragile and fragile areas i.e. not enough difference for island areas
- LMO to support grazing in hill areas
- Peripherality and insularity costs not included
- Socio economic criteria been excluded
- Cattle uplift payments where cattle deliver enhanced environmental benefits
- Link to activity
- Link to land capability

## **Map 2.1: LFA Areas in Scotland**

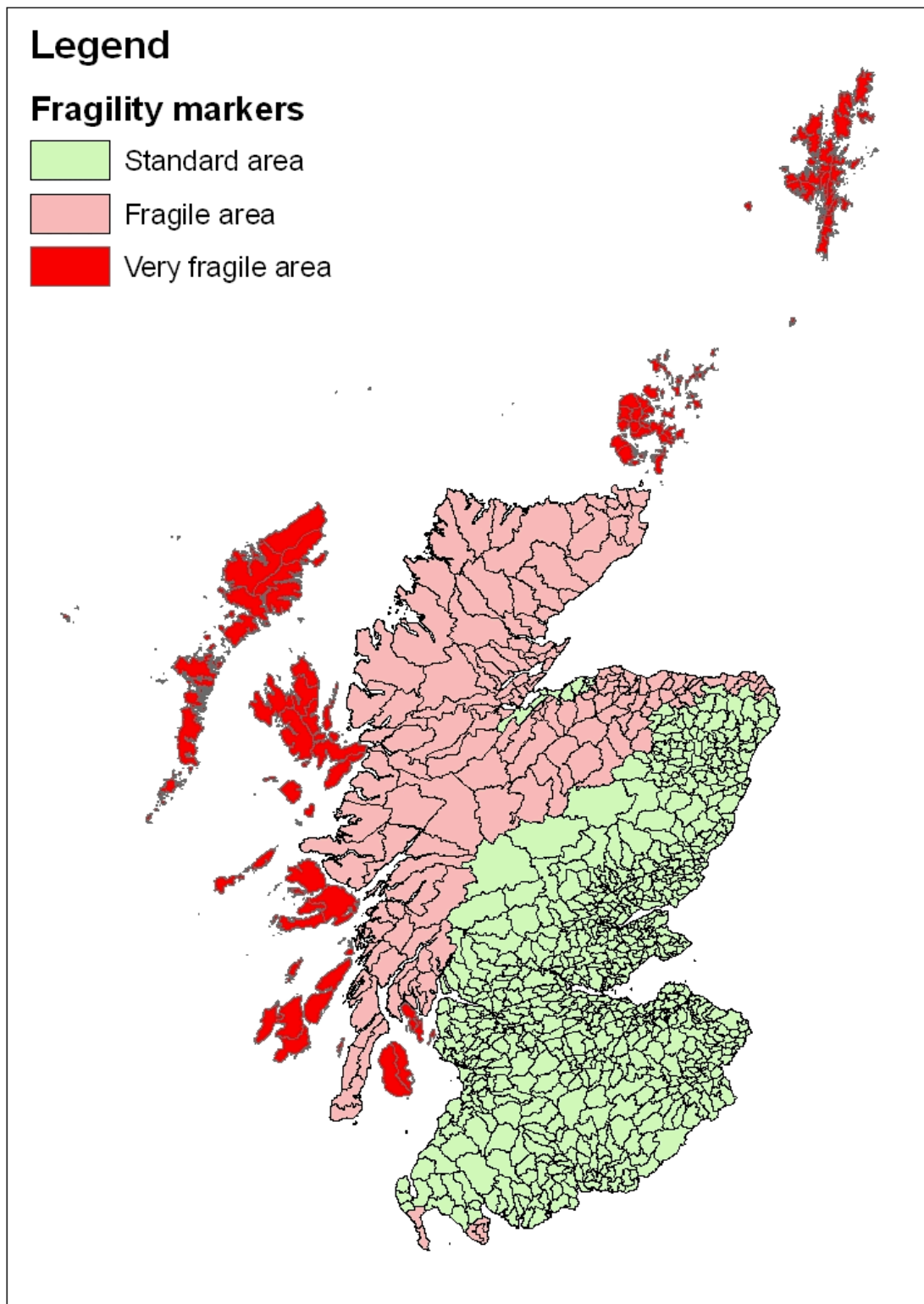
# LFA Areas in Scotland

## STATUS

- Severely Disadvantaged
- Disadvantaged
- Outside LFA



**Map 2.2: Distribution of Standard, Fragile and Very Fragile Parishes in Scotland**



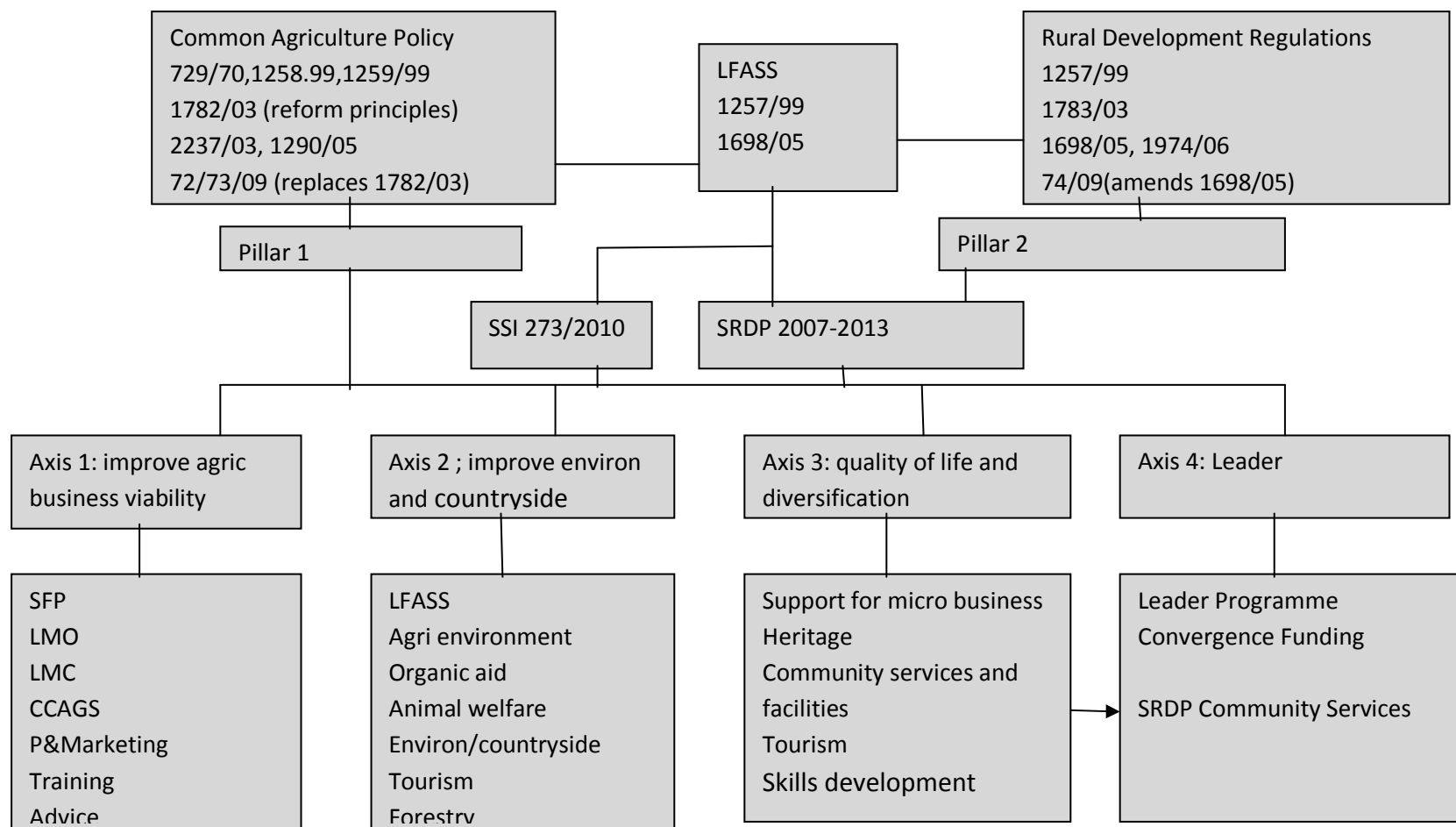
Source: SEERAD (2003)

3. **Leader** – This is an initiative based on a community led integrated strategy and action plan to support bottom up innovative initiatives that is funded under axis 4 of the SRDP 2007-2013. It is managed and run by a Local Action Group (LAG) and targets innovative community or small business projects. Certain groups are also targeted as a priority such as young people and women, as well as certain localities where there are considered to be particular problems e.g. some of the remoter outer communities such as the small islands and other local communities with specific problems.

The diagram that follows summarises the support system and the legal basis for it.



**Diagram 2.1: CAP Agriculture Support System in Shetland**



In summary therefore it is clear that support to land-based activity in Shetland from the EU/Central Government comes in four forms:

- 1     **Single Farm Payment.** This is the Pillar 1 payment which succeeded the multifarious production aids, with the EU's decision that trade negotiations required decoupling of support from production. All crofters and farmers who submit an IAACS form receive this, and currently it is in no way dependent on activity, and is entirely dependent on an available area of land to apply units of entitlement to. Entitlement is tradable, and value of units is dependent on the value they acquired upon original issue, which was set according to the support payments received by the original farmer who received them, within a reference period. Hence, their value is entirely historic.
  
- 2     **LFASS payments.** These are payments available to crofters and farmers who actively farm at least 3 hectares within land which is defined as being subject to structural disadvantage, the less favoured areas. In Scotland's case, this means around 84% of the country. There are variations in how these are paid, with rates being set for standard, fragile, and very fragile areas. Shetland, as with all Scottish Islands is defined as very fragile. It is worth noting that islands and mountain areas can be defined as areas of significant natural handicap, and that this affects the permissible intervention rates; the amount per hectare which can be paid under the scheme.

It is strongly **recommended** that Shetland seeks allies and lobbies for this definition to be applied. A significant threat here is the lobbying position of NFUS, which is attempting to gain support for all area definitions to be removed, and assessments being done farm by farm, as far as LFASS support is concerned. It is the view of the authors that this should be resisted, and that area definitions be retained and actually strengthened, with some broadening of the Very Fragile Areas plus a special definition for islands and mountains. It is also our view that Shetland should lobby on the basis of the current rule that full compensation for disadvantage be paid, and that the Scottish Government act in a spirit of natural justice instead of trying to ensure there are no winners and no losers.

The European Commission in their review of LFA <sup>1</sup>suggest that it should be more linked to the environment and to soil type, yield and climate factors. The RSE report<sup>2</sup> recommends that post 2013 the LFA payment should be an add on to SFP in disadvantaged areas but with inclusion of other criteria such as the costs of remoteness. For example to take account of the fact that the cost of an agric

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<sup>1</sup> Communication on a better targeting of the aid to farmers in areas with natural handicaps, European Commission, COM (2009) 161, April 2009

<sup>2</sup> Committee of Inquiry into the Future of Scotland's Hills and Islands, Royal Society of Edinburgh, Sept 2008

building in an island can be up to double what it might cost in a more central area.

- 3 **SRDP. Scotland Rural Development Scheme.** This is a competitive scheme, which replaced a very large number of separate support schemes, some land based, and some community based. Among the land-based schemes which were replaced were ESA and RSS, which were successful and well regarded in Shetland.

It is **recommended** that Shetland lobby for a post-2013 scheme which returns to non-competitive agri-environmental measures, which can be entered as a unit by unit commitment. It is recognised that this will require more resource to be applied to the scheme overall, but it is accepted that Scotland's LFA rate is incredibly low, and could be re-negotiated, if the will is there.

Shetland, with allies, therefore, should articulate a case to the European Commission for an increase in the rate. It is further recognised that this may be resisted by the Treasury, as any additional EU money would come off the EU rebate, but the Scottish Government should be sympathetic, as they are currently subsidising Pillar 2 payments at a rate of 70:30, instead of the EU norm of 50:50.

Scotland is at the bottom of the league table of EU funding per hectare of utilised agriculture area. The RSE report <sup>3</sup> highlights this fact and concludes that Scottish farmers are not competing on equal terms with their counterparts in other countries. The Pack Inquiry Final Report also highlights this fact.<sup>4</sup>

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<sup>3</sup> The Future of Scotland's Hills and Islands, Committee of Inquiry, Royal Society of Edinburgh, 2008

<sup>4</sup> Pack Inquiry Final Report, November 2010, p34

**Table 2.1: Comparison of Rural Development Funding between Selected EU States (£ per hectare of utilised agricultural area per year)**

Country	National and EU funding 2000-06	EU funding only 2000-06	EU allocation only 2007-2013
Austria	206.1	99.9	121.8
Sweden	82.8	36.7	59.2
Finland	248.2	99.4	94.0
Ireland	85.3	54.3	54.3
Luxembourg	295.7	72.0	71.3
Germany	57.0	31.7	48.5
France	44.4	21.0	23.5
Spain	23.4	14.0	29.1
Italy	68.2	34.9	64.1
Denmark	31.7	13.3	17.0
UK	27.9	11.1	12.0
England	26.2	11.6	12.7
Wales	50.7	15.3	20.8
Northern Ireland	38.5	17.0	16.4
Scotland	22.2	7.6	7.4

Note: Utilised Agricultural Area of farmed land (Eurostats 2003)

Source: Rural Development Programmes 2000-2006 Country Profiles. European Commission Fact Sheet, The EU Rural Development Policy 2007-2013

- 4 **Crofting** Counties Agricultural Grant Scheme and Croft Housing Grant Scheme. These should be addressed separately, as being of considerable significance. They can be dealt with directly to RPID, and it worth noting that CHGS is currently under review, and that CCAGS, although ring fenced for crofters, is within the SRDP envelop. This undoubtedly presents a threat post 2013. These grant schemes should be moved back to the Crofters Commission and its successor the Crofting Commission.
- There is also a need to update the ceilings for CCAGS grants to reflect the real capital costs of buildings and materials in peripheral and island areas. These can be 100% higher than in more central Mainland Scotland areas.

Over the past decade and a half, anecdotally, the most successful scheme which has operated in Shetland was the Environmentally Sensitive Area Scheme. This was non-competitive, and concentrated on a limited number of indicators; heather moorland regeneration being probably the most significant. There is now every evidence of success in this, but also clear evidence that long time scales are necessary. Studies have been undertaken e.g. on heather moors and on wading birds which show increasing numbers and increased biodiversity.

The actual amount of funding that has come to the industry each year over the last 10 or more years is summarised in Table 2.2. This shows the wide range of schemes that have existed and which have been partly streamlined and merged into the SFP e.g. the annual premium schemes, and the total amounts that have come to Shetland. In 2009 this came to £11m which is clearly a substantial sum which has significant impact on the industry and widespread social and economic impact across the islands.

**Table 2.2: National/EU Support to Agriculture 1986 to 2009 in Shetland**

£m	1986	1991	1996	2001	2003	2004	2005	2006	2007	2008	2009
HLCA	1.33	1.61	1.25	-			-	-	-	-	
APS	0.89	3.29	4.71	3.04	(3.61)	(4.03)	(4.28)	(5.33)	(4.77)	(4.9)	
RSS	-	-	-	-	*	0.027	0.052	0.237	0.543	0.418	0.429
LFASS	-	-	-	1.92	1.01	2.04	2.04	3.351	2.145	2.174	2.489
AAPS					*	*	-	-	-	-	
PCP					-	*	0	0	0	0	
ECS					-	*	0	0	0	0	
DPS					-	0.006	-	-			
SAPS					3.096	3.467	-	-			
SCPS					0.289	0.314	-	-			
BSPS					0.077	0.082	-	-			
EPS					0.135	0.145	-	-			
SPS					0.015	0.019	-	-			
OAS					0.064	0.055	0.028	0.026	0.030	0.032	0.020
FWPS					*	*	0	0			
CPS					*	0	0	0			
ESAPS			0.13	2.01	2.467	2.210	2.167	2.078	1.757	1.371	1.060
HS/HMS					0	0	0	0			
FWS					0	0					
SBCS					-	-	0.108	0.105	0.097	0.116	0.135
SAFPS/SFP					-	-	3.927	3.873	3.946	4.347	5.020
LMCMS					-	-	0.241	0.460	0.289	0.435	0.315 <sup>1</sup>
RP											1.540 <sup>2</sup>
Total	2.22	4.90	6.09	6.97	7.15	8.36	8.56	10.13	8.81	8.89	11.0

<sup>1</sup> Incomplete: <sup>2</sup> Capital claims only, excludes management payments

Source: Shetland in Statistics 2008; the Administration of Common Agricultural Policy Schemes in Scotland; Rural Payments and Inspections Directorate Annual Report, SGRPID Lerwick Office

**Table 2.3: Acronyms in Table 2.2**

Acronym	Scheme
AAPS	Arable Area Payments Scheme
APS	Annual Premium Schemes
PCP	Protein Crop Premium
ECS	Energy Crops Scheme
DPS	Dairy Premium Scheme
LFASS	Less Favoured Area Support Scheme

SAPS	Sheep Annual Premium Scheme
SCPS	Suckler Cow Premium Scheme
BSPS	Beef Special Premium Scheme
EPS	Extensification Payment Scheme
SPS	Slaughter Premium Scheme
RSS	Rural Stewardship Scheme
OAS	Organic Aid Scheme
FWPS	Farm Woodland Premium Scheme
CPS	Countryside Premium Scheme
ESA	Environmentally Sensitive Areas Scheme
HS/HMS	Habitat Scheme
LMCMS	Land Management Contract Menu Scheme
SBCS	Scottish Beef Cattle Scheme
SAFPS	Single Application Form Payment Schemes
ABDS	Agricultural Business Development Scheme
HLCA	Hill Livestock Compensatory Allowance
RP	Rural Priorities

Annual Premium Schemes include sheep annual premium and suckler cow annual premium

Figures obtained from a DEFRA data base provide overall figures for Shetland for 2008 of £4.046m of direct EAGF funds and £4.155m of Rural Development funds to give a total of £8.2m. This total is distributed among 1,115 units that are spread across Shetland as can be seen from table 2.4 below.

**Table 2.4: Subsidy by Area in Shetland 2008**

Area	Number	Direct EAGF	Rural Dev	Total	Average
Central	200	639,843	603,317	1,243,160	6,216
Isles	281	709,214	770,635	1,479,849	5,266
North	198	1,028,654	1,094,129	2,122,783	10,721
South	144	619,952	498,803	1,118,755	7,769
West	215	545,084	686,488	1,231,572	5,728
Other Shetland	64	454,883	463,216	918,098	14,345
Unknown	13	48,129	37,964	86,093	6,623
<b>Total</b>	<b>1,115</b>	<b>4,045,759</b>	<b>4,154,552</b>	<b>8,200,311</b>	<b>7,355</b>

Source: Defra

**Table 2.5: Subsidy as a Proportion of Total Income Value**

	1971		1982		1986		1991		2001		2007		2008		2009	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
VoS <sup>1</sup>	1.0	69	4.5	77	6.6	75	6.8	58	5.53	44	6.0	43	7.1	45		
Sub <sup>2</sup>	0.46	31	1.3	23	2.2	25	4.9	42	6.97	56	8.0	57	8.8	55		
Inc <sup>3</sup>	1.46	100	5.8	100	8.8	100	11.7	100	12.5	100	14.0	100	15.9	100		

<sup>1</sup> Total Value of Sales; <sup>2</sup> Total Subsidy; <sup>3</sup> Total Income.

Source: I/O Studies, SIC EDU

The figures in the table above show a fairly dramatic shift in the balance between income from sales and that from support measures. In 1982 subsidies only accounted for 23% of gross income while it has moved close to 60% in 2007, although it has fallen back again as prices have improved more recently.

The figures for 1982 from the I/O report<sup>5</sup> for that year show that the industry could almost pay its way as the total costs closely matched total receipts from sales. It also showed labour as the largest cost at 46% followed by feed (13%). Unfortunately comparable figures are not available for a more recent date, but they would almost certainly show the industry running at a significant loss without the support payments. Evidence from a SAC report confirms that sheep farmers in the nearest comparable area i.e. the NW Highlands are making a loss on each ewe before fixed costs are included.<sup>6</sup>

Subsidy payment as % of output in 2007/8 and 2008/09 for LFA sheep inputs across Scotland was 52% and 50% respectively, and for LFA sheep and cattle units 45% and 41% respectively. Thus it appears that the level of subsidy in Shetland is higher than the average across Scotland.<sup>7</sup>

In addition the industry has been receiving support from other agencies such as the Crofters Commission and Shetland Islands Council.

**Table 2.6: SIC Financial Support to the Agriculture Industry in Shetland**

SIC Schemes/Support	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10
Fertiliser	123,296	114,988	112,474	108,822	107,815				
Lime	21,921	12,425	18,572	38,854	26,635				
Beef Heifer	18,400	22,800	20,500	31,675	27,400				
Dairy Heifer	7,140	7,065	5,070	750	5,490				
Bull Grant	9,024	16,342	40,475	26,897	36,013	8,326	3,350		
<b>Finished Lamb</b>									
- Headage	7,129	22,482	21,593	12,291	15,427				
- Acreage	3,070	2,773	5,666	1,545	2,290				
Potato / Veg / Hort	6,000	14,155	11,883	6,077	700				
Livestock Health / SAHC	46,928	50,311	43,045	39,351	34,373	37,695	52,174	97,821	96,801
Shet Agric Grant Scheme	17,332	40,754	47,019	43,337	27,196	23,953	78,677		
Shet Agric Bus Scheme						99,973	56,028	93,194	118,476
Rural Develop Scheme							7,312	58,057	12,667
Agricultural Contractor		45,762	31,245	24,560	28,737	6,230	11,956	34,023	4,650
Other SIC Schemes									
Other General Assistance				148,551	84,162	136,803	187,613	38,870	86,052
<b>Total SIC Grants</b>	<b>260,240</b>	<b>349,857</b>	<b>357,542</b>	<b>482,710</b>	<b>396,238</b>	<b>304,654</b>	<b>386,448</b>	<b>321,965</b>	<b>318,646</b>
Agriculture Loans									98,100

<sup>5</sup> I/O Study for Shetland 1982/83, Fraser of Allander Institute, 1983

<sup>6</sup> SAC, Farming's Retreat from the Hills, 2008

<sup>7</sup> Economic Report on Scottish Agriculture 2010, Scottish Government, June 2010

NB: The Shetland Agricultural Business Scheme consists of a combination of fertiliser, lime, arable, beef heifers, dairy heifers and bull schemes, crops.

NB: The Rural Development Scheme is funding for fencing, ditches, buildings, land management, drainage, feed systems, stock handling facilities, investment in milk, pigs and poultry.

Source: SIC EDU

NB the Shetland Agricultural Grant Scheme was for crofters not eligible for CCAGS grants

**Table 2.7: Other Financial Support to the Agriculture Industry in Shetland**

Schemes (£)	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10
<b>Crofters Commission</b>										
CCAGS	419,454	327,806	336,412	422,692	362,033	414,069	638,615	351,808	275,557	-
CHGS					56,000	295,000	234,231	213,084	192,343	183,423
CI (Bull Hire)										
CES/HICES	138,879	50,195	86,268	32,149	29,821	7,288	13,773	15,048	-	-
CCDS	£1,321,222 approved up to 2006							-	-	-
CBGLS	443,306	101,500	70,601	283,000	81,500	-	-	-	-	-

NB: CCGAS – Crofting Counties Grant Scheme Scotland (transferred to SGRPID 2009); CHGS – Crofting Housing Grants Scheme (under review); CI – Cattle Improvement; CES – Croft Entrants Scheme (closed 2008); CCDS – Crofting Community Development Scheme (ceased 2006, transferred to SRDP); CBGLS – Crofters Building Grants and Loan Scheme (superceded by CHGS); MG – Machinery Group; HICES – Highlands and Islands Croft Entrants Scheme; CI - Cattle Improvement.

## 2.2 General Analysis of System and Impact on Shetland

The current system has helped to keep the agriculture sector in operation and to maintain activity in rural communities that might not otherwise have been happening.

The main issues, highlighted in the responses to the agriculture strategy questionnaires, are considered to be:-

- The system is too complex and onerous.
- There are considerable uncertainties and delays in schemes being set up and in payments (some 2009 payments not yet made).
- Many of the measures are not appropriate and difficult to access as they do not fit the Shetland circumstances e.g. thresholds too high for agri environment schemes.
- There is no access for people who have started after 2003 due to the support being based on an historical base line i.e. what was happening in 2000-2002.
- The LFASS component does not fairly compensate for physical handicaps of remote island communities like Shetland, compared with less fragile areas.
- There is no flexibility to address issues differently in different geographic locations; it is a one solution fits all approach.
- There is no incentive to keep stock or to improve the land as likely to still get a low payment per hectare based on land classification

Further points/issues include

- Market instability and fluctuations in prices, inability to plan
- High cost of inputs and transport



- Declining and ageing workforce

### **3. Evaluation of Pack Proposals**

#### **3.1 Summary of Pack Proposals**

The Pack inquiry was set up to identify the key issues facing the industry in Scotland and consider the sort of support that might be appropriate to address these issues. More specifically it was to examine and provide recommendations in the following areas:-

- How Pillar 1 funds might be distributed in future
- The conditions necessary to secure public benefits
- The link between payment levels and farming activity
- Future balance between Pillar 1 and 2 of CAP in Scotland
- Scottish priorities in future negotiations with UK and EU levels

The Interim Report of the inquiry was published early in 2010 and had a mixed response, mainly negative from Shetland producers. The report proposed 4 strands of support:-

1. Direct payments on area basis not historic: to cope with market volatility and provide a safety net; to be based on MLC on a field by field basis
2. Top up Fund: available to farmers in receipt of direct payments and to be used to achieve transformational change to enhance competitiveness and sustainability.
3. LFASS: compensation for disadvantage but no clear definition given, left to final report
4. SRDP: to be prime delivery mechanism for public good benefits and wider investment in rural areas

The Short Term Recommendation report just published contained 7 recommendations as follows:-

- No change in SFP before 2013 which at least introduces some stability but does not address any of anomalies
- Updates to computer system
- A minimum stocking density to be eligible for SFP which may be okay for Shetland producers – This is an acceptable position and should be set on the basis of appropriate land quality analysis. An absolute minimum might be 0.68LU/ha currently under consideration, but it is also necessary that a “better land” level be set.
- No changes for recent entrants before 2013
- No use of Article 68 to address specific issues

The Final Report was delayed until November to gain more input from what the Commission will be proposing in their Reform Communication. It has taken account of a number of the comments made in relation to aspects that would have a negative effect on areas likely Shetland and has moved the Inquiry position to a more balanced one that takes on board the wider role of agriculture and the problems facing the very fragile areas. The proposal to base the SFP on the Land Capability for Agriculture classification (LCA) has been dropped and it is proposed that different payment systems be set up for LFA and non LFA areas and that “Vulnerable Areas” be defined and supported.

It is suggested that producers in LFAs get access to:-

6. SFP on a low payment area basis
7. Top Up Fund payments based on Standard Labour Requirements (SLRs) based on meeting environmental and other targets
8. Headage schemes for calves and lambs
9. LFASS payments using money transferred from Pillar 2 to Pillar 1
10. In addition Vulnerable Areas are to be eligible for special payments from the remainder of the LFASS budget left in Pillar 2

### **3.2 Summary of General Responses to Pack Interim Report**

Many bodies and individuals have given their views on the Pack proposals. Some of the main ones are summarised below.

#### **Soil Association, Scotland**

The Pack Inquiry interim report is a very useful guide to the issues that will determine the future of agricultural support. However, it is heavily based on an assumption that a large-scale increase in food production is required. This assumption is not tested, analysed or justified.

Its recommendations propose a balance of funding to farming that will favour larger-scale producers through area-based payments rather than through rewarding provision of public goods. Justification for this pattern of payments is missing from the report.

It contains little recognition of the importance of agriculture to climate change, and no detail on the important role appropriate farming systems can play in addressing it.

Reference to organic food and farming, and the many public benefits it provides, is entirely missing.

#### **Royal Society of Edinburgh: Summary of Views**

- The strategic objectives of the interim report are welcomed and the analysis in the early sections is broadly in line with the findings in the RSE's Inquiry into the Future of Scotland's Hills and Islands.
- However, the emerging ideas regarding implementation seem to concentrate almost exclusively on how to safeguard agricultural production. In our view, as the Interim Report acknowledges, agriculture must be part of the bigger picture meeting broader public policy objectives and provide outcomes for society as a whole. This needs to receive greater emphasis in determining support arrangements for agriculture post 2013.
- Currently the emerging ideas from the Inquiry do not seem to us to align wholly with the Report's analysis on meeting Scotland's objectives or those for a reformed system of agricultural support. We conclude that in considering support for agriculture beyond 2013 there needs to be a greater emphasis on the delivery of public goods integrated within the context of a Strategic Land Use Policy for Scotland.
- The case for the funding of public goods or benefit depends on market failure, meaning that without support those capable of providing them will not, or will not adequately, be remunerated. In consequence they would be unlikely to be delivered. We consider that the promotion of biodiversity, protection of landscape, flood protection and measures to combat climate change may at times conflict with purely agricultural objectives and this is why we advocated a policy which, while safeguarding the potential of Scottish agriculture, would be within the wider context of a strategic and integrated land use policy accepting that public benefits cannot be delivered regardless of cost.
- While we accept the LCA as a starting point for redistribution of direct support, as a means of decoupling, and to meet the need to safeguard agricultural capacity, the actual payments per unit area must also be adjusted to reflect the full panoply of objectives being set for land use post 2013 (Page 35 of the Interim Report). The model should be developed so that a greater degree of transparency can be achieved with regard to what the payments are expected to deliver with regard to these objectives.
- As the report makes clear, a very substantial part of Scotland – 85 per cent – is classified as LFA. Before firm decisions are taken on proposals for future direct support, especially the use of the Top Up Fund, it will be important to see how LFASS payments are likely to be affected by amendments to LFA coverage.
- The suggestion that the Top Up Fund should be included in the SRDP, which is Pillar 2, should not be considered unless there is more appropriate EU funding for the UK's share of Pillar 2. Until this expenditure is based on some assessment of need, rather than history, reliance on Pillar 2 alone would not provide a fair competitive basis for

agriculture between the member states, which was one of the principal objectives of the CAP.

## RSPB

RSPB Scotland commends the initial analysis by Pack, but deplores the way in which this analysis “seems to disappear”.

The RSPB view is that it is not axiomatic that either the public goods desired by society, or the challenges we need to address, will be automatically achieved by an emphasis on support measures to sustain agricultural production. If we desire specific outcomes, we must set clear objectives and target public support accordingly.

The assumption made that any significant redistribution of farming support – particularly between sectors and geographic regions - must be minimised and avoided, as far as possible, is deplored, given that the current distribution of support reflects historic, and now out-dated, policy objectives and has little relevance to the delivery of public goods, the effort to develop an area based payment that avoids redistribution seems misplaced. Linking payments to land capability, as suggested in the report, would continue to direct the highest levels of support to those farming the best quality land where productivity and market opportunities are greatest.

The RSPB does not consider that justifiable, as the Report states, *‘Some question why farmers on the best land who are best placed to run profitable enterprises also receive the most support’*; the Report fails to answer this question. Their conclusion is that, although a transitional period might be acceptable, the defining of public goods, and a clear move towards paying for them through public support is deemed essential.

The RSPB is supportive of Top Up Funds, if used to encourage good social and environmental practice, such as HNV farming, organic farming, plus higher tier environmental payments.

The organisation, the biggest of the NGOs, does not support the Pillar 1 and Pillar 2 structure, but suggests budget allocations to member states on the basis of a strategy to be measured against priorities.

In ***the short term***, RSPB Scotland supports further reforms to the SFP. The European Commission has already signalled in the 2008 CAP Health Check that the SFP, paid on an historic basis, is increasingly difficult to justify in public expenditure terms<sup>8</sup>. As a result,

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<sup>8</sup> Mrs Fischer Boel, in her 6 December 2007 speech explaining the Health Check stated: “it’s important that we could allow certain Member States to reduce differences between individual farmers’ decoupled payments within their territory. This may be relevant particularly to those Member States which have chosen the so-called “historical” model of the Single Payment Scheme. Allowing Member States to move towards a model with a “flatter” rate is partly about fairness. But it’s also about public acceptance of the payments. Because in

Member States now have the option to review their payment model between now and 2013. RSPB Scotland believes that Scotland should take up that option and introduce the following changes before the 2013 reforms:

- Start moving immediately away from the historical basis for SFP, which continues to target support at farming activity which happened almost a decade ago, and lacks any current policy justification;
- Take advantage of the option to use a 10% national envelope for the hill livestock industry, through the use of Article 68(1)(a)(v) to fund a package of upland Land Managers Options, or Article 68(1)(c) to target livestock farming in areas at risk of abandonment;
- Improve the content and implementation of GAEC so that it more effectively protects against environmental damage, and starts to build proper public benefit into the delivery of SFP;
- Re-establishing the benefits of set-aside, previously paid for through Pillar 1 funds, either through the introduction of suitable GAEC conditions or through an Article 68(1)(a)(v) envelope to fund a basic stewardship LMO package.

### **Shetland Agriculture and Conservation Forum**

- The strategic objectives of the interim report are welcomed and the analysis in the early sections is considered to be acceptable and comprehensive. Shetland 2014 is a recently formed policy think tank, and is pleased to have the opportunity to make this response. We would wish to credit the Royal Society of Edinburgh's Hills and Islands report (Drew Ratter was a member of the committee which produced it) in our paper. We find the ideas and approach taken by the RSE committee highly convincing, in general. Our approach differs somewhat, insofar as it is, in keeping with the principals of Shetland 2014, more Shetlandcentric.
- Given our endorsement of the strategic objectives adopted by the Pack committee, we are concerned that, as the ideas, and proposals for implementation are developed, everything seems to disappear apart from the one priority: safeguarding agricultural production. In our view, as the Interim Report acknowledges in its own introduction, agriculture must be part of the bigger picture meeting broader public policy objectives and providing outcomes for society as a whole. This needs to receive greater emphasis in determining support arrangements for agriculture post 2013. The substantial amount of public money being disbursed should buy a range of public benefits. This also has the advantage of re-integrating agriculture with other forms of land use, in keeping with our understanding of the development of rural policy over recent decades

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the long term, no-one will understand why large differences between decoupled payments are due exclusively to production decisions taken in the reference period of 2000 to 2002."

- Currently, then, the emerging ideas from the Inquiry do not appear to us to be acceptable, in terms of meeting the Scottish Government's headline objectives or those for a reformed system of agricultural support. We believe that in considering support for agriculture beyond 2013 there needs to be a greater emphasis on the delivery of public goods integrated within the context of a Strategic Land Use Policy.
- The case for the funding of public goods or benefit depends on market failure, meaning that without support producers of public goods will not be properly remunerated. In consequence they would be unlikely to be delivered. We consider that the promotion of biodiversity, protection of landscape, flood protection and measures to combat climate change may at times conflict with purely agricultural objectives and this is why we advocate a policy which, while safeguarding the potential of Scottish agriculture, would be within the wider context of a strategic and integrated land use policy
- While we accept the LCA as a starting point for redistribution of direct support, as a means of decoupling, and to meet the need to safeguard agricultural capacity, the actual payments per unit area must also be adjusted to reflect the full panoply of objectives being set for land use post 2013 (Page 35 of the Interim Report). The model should be developed so that a greater degree of transparency can be achieved with regard to what the payments are expected to deliver with regard to these objectives. We must also note that the current Macaulay mapping is not on a scale which would permit its use in Shetland, unlike in more agriculturally intensive parts of the country
- As the report makes clear, a very substantial part of Scotland – 85 per cent – is classified as LFA. Before firm decisions are taken on proposals for future direct support, especially the use of the Top Up Fund, it will be important to see how LFASS payments are likely to be affected by amendments to LFA coverage and decisions of the Scottish Government, which we believe to be pending.
- The suggestion that the Top Up Fund (about which we have general doubts, expanded later in this paper) should be included in the SRDP, which is Pillar 2, should not be considered unless there is more appropriate EU funding for the UK's share of Pillar 2. Until this expenditure is based on some assessment of need, rather than history, reliance on Pillar 2 alone would not provide a fair competitive basis for agriculture between the member states, which was one of the principal objectives of the CAP.

### **Scottish Crofting Federation**

The SCF is very critical of the Pack proposals particularly the narrow focus on production and a lack of consideration of sustainability, despite an initial acknowledgement that "European Agriculture is multi functional". Their main points included:-

- Need to include crops and livestock not supported e.g. pigs, goats, potatoes, vegetables, fruit, and polytunnels
- Need to take account of carbon sequestration, environmental protection and animal welfare
- Need to change systems to avoid rewarding the better off and penalising the less well off
- One size does not fit all, especially crofting
- LCA useful tool but needs to take account of capability for carbon sequestration and biodiversity as well as agriculture
- Advocate a sliding scale of area payments with highest rates for first few hectares then decreasing and capped
- Question need for top up payments

## **NFUS**

The main points submitted by the Shetland branch of the NFU were as follows:-

- Need a transitional period to adapt to a new area based payment
- Top ups not felt to be a good idea as introduce more uncertainty and more form filling
- If MLC used as basis for area payments then needs to be different payment rates especially for class 5.1 and 5.2. Current proposal likely to penalise those who produce more livestock or crops than indicated by MLC
- Suggest use IACS form returns that identify what each field is producing
- LFASS needs to be able to compensate fully for losses generated by an area based system
- Important that activity attached to area payments and a minimum stock density and crops produced included
- Ideas for application of top ups include:-
  - Production of winter keep
  - Production of root vegetables for human consumption
  - Support of native breeds, both sheep and cattle
  - Financial incentive for lambs marketed from island/hill areas
  - Payment for home bred heifer in beef/dairy herd
  - Management of grassland for breeding birds
- No objection to ending Scottish Beef Calf Scheme if another alternative is possible

## **Highland Council**

The Highland Council provided a very full response to Pack. Only a few points are highlighted here:-

- Support for delivery of public goods not market intervention



- Top Up Fund supported with qualifications such as link to Article 68 and use for extensive livestock systems and land abandonment
- Support move to area based Pillar 1 payment post 2013 and that only available to those that actively manage the land
- Wishes to see transitional hybrid historic /area based scheme as lead in pre 2013 to a full area system post 2013. This could enable the inclusion of new entrants before 2014

### **Shetland Island Council**

The Council has raised a number of concerns about the Pack proposal which are seen to have a negative impact not just on the agriculture sector in Shetland but also the whole rural economy and the ability to meet any of the wider Scottish Government objectives in its economic strategy. A copy of the response is attached in appendix 3.

**Scottish Government:** The Cabinet Secretary – Richard Lochhead – announced some measures in response to the report. He approved rules to help ensure farmers receive subsidies based on the level of productive and environmental activity and closes the loophole that has enabled recipients of SFP to carry out little or no farming activities. Land will have to be grazed and kept in good condition. Also hill sheep farmers will benefit through the introduction of a new LMO for sheep handling facilities.

It would appear that there is much more support from the industry for the proposals in the Final Report which, as indicated earlier, has moved quite significantly from the Interim stage. The president of the NFU has been quoted as saying, “Brian has got the main principles about right”, although they may still object to moving most of the LFASS budget to Pillar 1. There has certainly been more support from the LFA areas and the introduction of a Vulnerable Areas concept has meant producers in Shetland have become cautiously more positive about the outcome of the Inquiry.

## **3.3 Analysis of Impact on Shetland Agriculture**

### **3.3.1 Interim Report**

**Positive Aspects:** There has been some support for some of the suggestions such as the move from the historic base to an area base and for only active farmers to be supported. The approach here is undeniably correct. The historic basis in its current form is becoming more and more indefensible. Further, we would endorse the principal that activity should be rewarded. We would, however, question the extension of that which states that grazing by livestock is the only activity which should gain the title of a good worth paying for. We would suggest that others, such as biodiversity benefits and climate change amelioration should also be considered. We would also take issue on a number of points of detail, as below

**Negative Aspects:** There are a number of issues of concern to Shetland producers as follows:-

- The value to Shetland producers could fall significantly, depending on the basis upon which land is assessed. The only feasible methodology would be a unit by unit assessment of land quality.
- The proposal seems to penalise intensive livestock units especially cattle production and could result in a reduction in cattle in Shetland.
- Lack of recognition of biodiversity or public good elements in activity.
- Top up fund proposal could perpetuate short termism and uncertainty, and not help to contribute to longer term stability.
- Not enough account taken of physical constraints of remote island areas under LFASS element.
- Report seems to ignore multi functional character of agriculture.
- Model is still based on paying more to those with best ability to produce for the market on the best agricultural land.
- Still trying to get one solution to fit all circumstances.

### 3.3.2 Final Report

The final report has taken account of representations made and moved the position of the Inquiry towards a more balanced one that takes on board the wider role of agriculture and the issues in LFAs. It also drops the suggestion for using the LCA as a method for distributing payments. It does however still reiterate the key role that direct support has for food production which should remain the central plank of the support system. It also suggests moving most of the LFASS money to Pillar 1.

The main proposals are divided into Negotiating Points and Recommendations for action by the Scottish Government, and are listed below with some observations on them from a Shetland perspective:-

#### Negotiating Points

1. A&B: CAP changes need to take account of global challenges and budget be adequate for the purpose:  
*agree*
2. D: Two Pillar structure should be maintained and Pillar 1 payments be used to tackle global challenges:  
*no problem with this though depends on distribution of funding and what measures come out of which Pillar*
3. C&E: Scotland should receive a larger share of the UK Pillar 1 budget and increased share of EU Pillar 2 budget:

*Agree, SG needs to be persuaded to pursue this, and should be part of Shetland lobby case*

4. F: Introduction of a cap on individual business payments should be resisted due to difficulties re new entrants and setting up new businesses:

*The Case should be made for a cap. If there is no cap then there needs to be some other mechanism to restrict the size of payments. (The EC proposal contains a suggestion for a cap on larger farms)*

5. G: Need for eligibility criteria to assess land qualifying for direct payments e.g. minimum stock density:

*agree so long as level acceptable; adding participation in certified environmental scheme as an additional criteria makes this more acceptable*

6. H: Concept of using direct subsidy payments to deliver public benefits needs to be accepted:

*Yes. The public benefits being in terms of food security (beef industry supply chain) and biodiversity (appropriate grazing regimes)*

7. I: Continue coupled payments on cattle and sheep with ceiling of 15% of Scottish direct payments:

*Agreed. This requires agreement from UK as it cannot breach an overall UK ceiling of 3.5%*

8. J: Non LFA land to qualify must be used for agriculture or be part of an approved environmental scheme

*Agree, as what happens must demonstrate equity*

9. K: Cross compliance needs to be overhauled to ensure proportionate enforcement and penalties:

*agree*

10. L: Create National reserve if required for new entrants:

*agree*

11. M: Pillar 2 money should be transferred back to Pillar 1 to deal with LFAs as an area payment:

*this may be okay but there could be problems unless carefully ring fenced as a package with sufficient cross compliance*

12. N: Rules should allow member States to designate an area or farm systems to receive special aid:

*Agree, this part of new EC proposals*

13. O: Member States need greater flexibility in Pillar 2 implementation:

*Agree, but also need to stress that the UK should use existing flexibility*

14. P: Safety net to be retained:

*no comment*

15. Q: Pan European marketing loan scheme suggested:

*no comment*

16. R: Less bureaucracy and greater flexibility:

*Agree, but what likely to be achievable*

## **Recommendations**

- 1/6 **Top Up Fund** to be central part of new contract between farmer and society, using Pillar 1 funding:

*see comments under 3/4/5*

2. Highest payments should go to the more active farmers who face highest costs.

*The basic premise here that direct payments are "designed to compensate producers for the increased costs of operating in a highly regulated common market", needs to be challenged. It is suggested that the larger more productive agriculture businesses on good quality land face higher costs than smaller farmers on poorer quality land. This is clearly not the case as all farmers face the same costs and regulations e.g. food safety and animal welfare, and larger farmers will have lower costs per head or hectare than smaller farmers.*

*It is contended that the justification for direct support should be targeted at production systems that are clearly not economically viable due to lack of economies of scale, higher input costs, and other factors such as limited sustainable production capability of the land or location, or other constraints.*

- 3/4/5 The system for delivering direct payments is proposed to be altered from one based on the LCA in the Interim Report to a more complex one based on whether the location is within an LFA or outside it.

1. **LFAs:**

- a. Low area payment (to minimise disruption of land market) on eligible land at minimum stock density of 0.12LU/h, eligible area to be reduced if fall below this level):no reference to an upper limit this time

*what about common grazings? As long as the sums add up*

- b. Top up using Standard Labour Requirements (SLR) to encourage delivery against global challenges:

*There are still concerns about top up schemes in terms of fairness, uncertainties and bureaucracy. Concern has already been expressed about likely increase in bureaucracy of a top up fund system, however if it is funded out of Pillar 1 then it is not likely to be competitive but based on a commitment to achieve specific outcomes i.e. "producing more from less" e.g. reducing fuel use and environmental damage. If ESA type actions could be included in programme to improve sustainability (p75) it could overcome some of the current problems. However the basis for calculating payment may pose a problem i.e. the SLR. It is not clear how it will be calculated. An expert group to be set up to work on the methodology.(7)*

*The Top Up proposal is different from the draft proposal and for LFA and VAs and has more potential.*

*Seek to get HNV farming accepted as eligible for TUF*

- c. Headage payment to stabilise cow and ewe numbers, to be paid on number of lambs and beef calves

- 1. SBCS (8)

- 2. LHS (9)

*These schemes are worth considering but may prove to be difficult to get accepted due to concerns re enforcement and traceability. The headage payment could also be helpful to Shetland producers though banding for size of herds considered too complicated and should be simplified e.g. to 1-15, 16-40, >40 at the most. The rate would need to be higher than suggested for herds under 40 in order to avoid losers in Shetland*

*It may also be necessary for these schemes to be tied into support for fodder production*

## **2. Non LFA (10)**

- a. Area payment, two thirds
- b. Top up based on area, one third

*At this stage there is no suggestion to breakdown the LFA or of considering Art 18 or 20 as well as 19 (current designation) of the EU reg. Later in the report there is a proposal to define Vulnerable Areas that would seem to fall within Art 20. Shetland would clearly fall within the LFA category but would need to see a breakdown of the LFA into at least 3 zones with differing levels of area payments, top ups, and headage.*

*It is not clear from the report whether the area payments would be treated as current SFP and be tradeable. Representations need to be made on this point*

11. Review of GAEC but ruled out more stringent standards:

*Why if not more stringent??*

12/13 Changes to happen quickly rather than over a transition period: okay as long as implications clear. If longer then need to use National reserve for new entrants:

*agree*

14. Cropping farms in LFA to be given option to opt out:

*No comment*

15. More modelling of possible impact changes:

*agree*

16. **Vulnerable Areas** to be identified that have “high natural handicaps” e.g. islands and areas where land abandonment is a risk (p72,85) and 25m euros of LFASS budget to be left in Pillar 2 for these areas. The rest of the LFASS budget to be transferred to Pillar 1 to supplement TUF in LFA:

“The LFA includes ‘areas of high natural handicap’ which have similar characteristics to the main LFA but are distinguished as suffering from extreme natural handicap (e.g. island locations). These areas, under an appropriate management regime, are capable of achieving high levels of multifunctionality, including biodiversity, carbon sequestration and food production leading to economic activity, and therefore deserve additional support (see the discussion of the future of LFASS in Section 5.5).”

*This is welcome recognition of very fragile areas if sufficient resources allocated; need to agree criteria and qualifying areas to be identified. It should be supported fully. But is there any downside for most of LFA budget being transferred to Pillar 1? The EC also proposes a transfer.*

17/18/19 SRDP should be more flexible, improved IT, have broader and shallower approach to agri environment; Leader should have greater role:

*Flexibility would obviously be welcome. It is not clear what is meant by the comments on the agri environ scheme but there should be more support for Leader if it is of use to crofters and farmers*

20.Strengthen role of Producer Organisations:

*This is an interesting proposal that should be investigated further in Shetland, possible agree*

21/22 If budget reductions some suggestions on priorities:

*agree priorities should be given to Vulnerable Areas and LFA area payments*

## **Impact on Shetland Producers**

### **Positive Factors**

- Recognition that future support system should be tailored to the needs of different places(p67), and take a differentiated approach (p72)
- Future support system should involve minimum bureaucracy and maximum simplicity (p67.68), and transfer of money from Pillar 2 to Pillar 1
- Recognition that some areas have good quality land and lots of options and other areas have poorer quality land and few options (p72)
- Recognition that parts of LFA suffer from extreme natural handicaps e.g. islands (p72)
- Recognition that public goods elements should be supported through top up payments (p75)
- Recognition of multi functional character of agriculture in LFA and constraints on islands (p72)
- Livestock producers likely to be penalised less through revised SBCS and SLS schemes

### **Negative Factors**

- Model used is still suggesting paying more to those with ability to produce for the market on better agricultural land than those in non economic circumstances and on poorer land
- Top up fund could lead to unfairness, uncertainty and more bureaucracy
- Agri environment measure still appear to be in the SRDP and thus competitive

## **Overall**

The Final proposals are moving in the right direction and should have a more positive impact on Shetland than the interim ones, though there are still areas of concern, and a need for lobbying to ensure that some of the more positive proposals do not get derailed by other lobbying interests.



## 4. CAP Reform Policy Context Pre and Post 2013

### 4.1 EU Position

#### 4.1.1 European Commission

In November 2007 the EC unveiled its “Health Check” of the CAP to look at ways to improve the policies and take account of the new challenges in an EU of 27 Member States. Three areas were considered as follows:-

1. Making Single Payment System simpler and more efficient by
  - a. Moving to a flatter rate system
  - b. Increasing decoupling rate
  - c. Reducing support levels gradually
  - d. Increasing the minimum land area eligible for support
  - e. Reviewing cross compliance standards
2. Adjusting support instruments by
  - a. Reducing intervention rates
  - b. Abolishing set aside
  - c. Adjusting milk quotas in run up to 2015
  - d. Assistance to sectors with special problems (Art 68)
3. Responding to new challenges such as managing risk, fighting climate change, managing water more effectively, preserving biodiversity through
  - a. Incentives
  - b. Rural Development Programmes

In November 2008 agreement was reached on the following action:-

- Abolish set aside
- Increase milk quotas and abolish in 2015
- Convert market intervention into genuine safety net
- Increase modulation and transfer more to RDF
- More flexible use of Article 68 measure to address special problems
- Increase in aid level for young farmers
- Simplified cross compliance

A study carried out into the impact of the Health Check on agriculture in Scotland concluded that it is likely to be limited<sup>9</sup> due to retention of Suckler Cow Premium and Ewe Annual Premium

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<sup>9</sup> Analysis of Impact of CAP health Check on Agriculture in Scotland, Queens University Belfast, 2008

A Communication on better targeting of aid to farmers in areas with natural handicaps was approved in April 2009. This is an important milestone which has already been outlined in the LFA section

The EC is planning to issue a Communication on the Future of the CAP on 18<sup>th</sup> November. It is likely to develop a number of the ideas raised in the Health Check and in the consultation process, however this could be overshadowed by the budget debate where there are likely to be proposals for substantial cuts to the CAP budget.

The intelligence that has leaked out on this paper (copy in Appendix 4) suggests it will include some of the following proposals:-

- Pillar 1 to be better targeted, and become “greener”, and direct payments to be more equitably distributed with a flatter basic payment and a cap for larger farms
- Farmers could be required to undertake more agri environmental rather than less. This could be in two parts
  - Basic decoupled rate of income support, probably area based (member state or region) and paid to active farmers only
  - Mandatory “greening” component in the form of a “simple, generalised, non contractual, and annual agri environmental actions”, such as permanent pasture, green cover, ecological set aside
- LFAS (areas with specific natural constraints) could be transferred from Pillar 2 to Pillar 1 and an add on to SFP for farmer facing “specific natural constraints”. This could come in the form of “voluntary co financed payments” from Member States. Also called an “optional national top up”. It is not clear whether it would be mandatory or not for member states to implement LFA payments. This could be an area of concern.
- Specific support to small farmers, though not clear what this means.
- Specific support to address specific problems in certain regions. This could include coupled payments
- Simplification of cross compliance
- There is also likely to be a stronger emphasis on an “outcomes approach”
- The communication also stresses the need to improve farmers bargaining power in the food supply chain

The current support systems vary considerably in different Member States despite it being a “Common” policy. For example there are different methods of calculating SFP and LFASS. It

is considered that these variations in rates of direct aid between farmers and countries are politically unsustainable, and there is a strong motivation towards greater fairness in any systems post 2013. However a flat rate payment across the EU may not be politically palatable and there could be cases made for segmented rates for different regions, farm types, and sizes.

The concerns about further changes post 2013 and about possible cuts have already brought some strong reactions from some Member States. France and Germany have just produced a joint paper underlining the need for direct subsidies to continue to be paid to farmers. They are seeking to maintain higher levels of payments to their farmers in the face of budget cuts and growing price volatility. They are also seeking more market power for the producer and a fairer balance in the added value chain.

The UK has indicated that this paper contains some interesting ideas but it still wishes to see cuts in the CAP budget and highlights the fact that with the Lisbon Treaty there is a co decision requirement with the EP therefore it will not be so easy for them to dictate terms.

Radical change is not considered likely post 2013 according to the authors of a paper in June 2010<sup>10</sup>, because of (a) concern about farmer's survival and (b) public concern about countryside and rural economies. Having said that, the authors actually propose a radical change to a "bond scheme" with a single one off payment.

#### **4.1.2 European Parliament**

The European Parliament Committee on Agriculture and Rural Development has been active this year considering several reports on the future of agriculture. These include:-

- Fair Revenues for Farmers, by Bove, Feb 2010
- Agriculture Product Quality Policy, by Scotta, March 2010
- Simplification of the CAP, by Ashworth, March 2010
- Proposal for Outermost Regions, by Alves, March 2010
- Agriculture in Areas with Natural Handicaps, by Dorfmann, March 2010
- Future of the CAP post 2013, by Lyon, June 2010

The Lyon report highlights the key challenges for the CAP post 2013 such as food security, water resources, energy prices, climate change and greenhouse gases, biodiversity, consumer demands for higher quality, better animal welfare and value for money. The CAP

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<sup>10</sup> A three pillar CAP, Annual Conference of Agricultural Economists, Attila Jambor and David Harvey, June 2010

also needs to tackle problems in rural areas such as land abandonment, rural depopulation and aging population.

The report also stresses the need for farmers to be rewarded for providing public goods such as environmental e.g. landscape, biodiversity and water management, and social e.g. food security, rural vitality, animal welfare and health. A public good is generally defined in economic theory as goods that are open to all (non excludable), and are available to all (non rivalry). Thus supply cannot be secured through the market and users have no incentive to pay for them. Since no market operates, public intervention is justified to achieve a desirable level and provision in line with demand from society. Some of the goods are provided incidentally as a result of current agric activities, however further economic incentives may be required to encourage farmers to direct efforts.

There is evidence of demand from society for some of the environmental public goods through numbers visiting national parks, reserves etc. There is also collectively perceived to be a positive value placed on the environment as well as a range of second order socio economic benefits e.g. stimulating other economic activity in rural areas e.g. tourism and recreation, speciality foods and products, attractive location for other businesses, retention of traditional skills. The case for the provision of public goods through agriculture is developed in some detail in a recently produced report<sup>11</sup>

Some of the key points made in the Lyon report include:-

- Agriculture has a leading role to play in tackling climate change
- Need to innovate and achieve production efficiencies
- Need incentive to address market failure and provide public goods
- Need to move to outcome agreements, simple contract, and multi annual payments
- Need more proportionate approach to regulatory controls
- Direct payments should all move to area basis but with some flexibility to be able to respond to specific needs in vulnerable areas or sectors
- Only active agriculture production to be rewarded

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<sup>1111</sup> Provision of Public Goods through Agriculture in the EU, IEEP, 2010

- Suggest EU funded top up payment through multi annual contracts to reduce carbon or increase sequestration
- Primary producer groups need to have improved negotiation power

Agriculture is now subject to the co decision procedures, which mean that the European Parliament will have a stronger input to the reform process.

## 4.2 UK and Scottish Government Positions

**UK :** The UK's position is based largely on the view that "the only long term justification for future expenditure of taxpayer's money in the agriculture sector is the provision of public goods (environmental, rural, social)". These goods should be measurable and capable of evaluation. This would suggest full decoupling of direct payments and a move primarily to Pillar 2 payments. The main points proposed in the government paper<sup>12</sup> on its vision are:-

- Agriculture should be internationally competitive without reliance on subsidy or protection
- It should be rewarded by the market for its outputs and the taxpayer for the societal benefits
- It should maintain and enhance the landscape and wildlife and tackle pollution
- It should be socially responsive to the needs of rural communities
- It should produce stock with high levels of animal health and welfare
- It should not distort international trade and the world economy

It is not yet clear what the new government's view might be. There could be some changes. The position in the UK is more complicated in that the CAP measures have been implemented differently in the different regional administrations. For example England chose to move quickly to an area based model, while Wales and Scotland retained an historic model.

**Scottish Government:** The Scottish Government does not agree with the UK vision primarily because it is expected to hit Scottish farmers far more than those south of the border, due to the very different land, climate, population, and cultural characteristics. Research has concluded that it could leave farmers in Scotland facing lower prices, fewer animals and reducing incomes<sup>13</sup>. The Scottish Government approach is different in the following ways:-

- SG supports the continuation of a direct support system to support national food production capacity

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<sup>12</sup> Vision for the CAP in the UK, HM Treasury and DEFRA, 2007

<sup>13</sup> Impact of UK Vision for CAP on Agriculture in Scotland, FAPRI-UK, July 2009

- SG believes farming should deliver a wide range of public benefits especially in remote areas and including climate change and sustaining communities, while UK focus is on environment only.

The Scottish Government sees agriculture as being a key part of its wider economic strategy through its Vision for Scottish Agriculture 2010 and the National Food and Drink policy – Recipe for Success.

#### **4.3 Most Likely Position Pre 2013**

The most reasonable conclusion that can be reached from the intelligence gathered is that there will be little opportunity for any major changes before 2014, though there may be some limited scope for tinkering around the edges, hence some suggestions put forward.

#### **4.4 Most Likely Post 2013 CAP Position**

The debate will focus on the full EC proposals when they emerge in November and will continue during 2011 as the legislation is drafted. There are a number of different positions from Member States as well as the EC and EP. These range from moving quickly to a more market orientated system with less subsidy and no direct payment, to maintaining a support system much as at present in recognition of importance of food security issues. There are several variations between these two positions calling for less direct support but more support for the production of public goods and the role of farmers in climate change and maintenance of the environment and heritage.

The balance of probabilities between these competing forces suggests that change to CAP post 2013 is unlikely to be dramatic. There is certainly expected to be some reduction in the budget but this should be spread across the whole of the next programme period to 2020. There is expected to be a continuing movement away from direct payments to wholly area based payments justified on the production of public goods (maintaining the countryside, landscape, biodiversity, water management) as well as maintaining “active” farming practice. The increasing emphasis on rural development is likely to ensure that the proposal for a revised LFA will attempt to focus on the fragile and disadvantaged areas with supplementary payments to compensate for natural handicaps that limit what can be produced.

## 5. Proposals and Recommendations

### 5.1 Options and Conclusions on a Support System for Shetland Agriculture

On the basis of the observations made by the key stakeholders and from our knowledge of the system, it is suggested that a revised system should take on board a number of key principles, some of which include:-

- Need to make best use of the current system as there is no certainty that it will change significantly after 2013. In fact it is likely to be a long phased change over a number of years.
- Need to have a fair allocation of resources and income to producers to address market failure and land management, as well as food production. It is essential that a Shetland position is based on firm principles e.g. fair payment for public goods, an even approach which does not favour one group of land managers over another.
- Need to be linked to a broader definition of agricultural activity and land management.
- Need to compensate more for poorer quality land areas rather than the better quality land (specifically under LFASS).
- Need to have flexibility to adapt to local circumstances.
- Need to take account of multi functional nature of agricultural activity.
- Need to take account of food security, landscape maintenance, preserving rural communities, biodiversity, carbon reduction, and creating high quality traditional products.
- Need to bring more stability and reduce uncertainty.
- Need to take account of new entrants and retirals.
- Needs to take account of physical handicaps and agri environmental land management role.
- Need for greater transparency
- Need to demonstrate support for a movement towards land managers earning more from the market, and over time requiring less support

These factors have been taken into account when looking at designing or amending the system to have a more positive result for the industry in Shetland.

Proposals for a fairer more equitable system for agriculture in Shetland and other peripheral, insular, marginal areas, which are still in line with the principles in the CAP, have been developed on the basis of a three stage approach. This has been done in recognition of the fact that it is extremely difficult to achieve any radical changes to the system in the short term. Thus the industry will have to survive largely with the current system until after that

date with only limited scope for adjustments to be made for the final two years of the current system (2012, 2013). Any such adjustments would need to be agreed during 2011. There will also need to be a response to the Final Pack report and the Government response to it. As a result it is suggested that action is taken to:-

1. **Maximise the Benefits of the current system and address barrier to accessing funds by:-**

- e. Increasing local support to crofters and farmers to access funds,
  - i. especially agri environment through employing more advisors to process applications
  - ii. providing more support to access other SRDP funding streams
- f. making all the opportunities for funding more available to local crofters and farmers through:-
  - i. local workshops and one to one advice
  - ii. local literature distributed to all local crofters and farmers
- g. ensure all common grazings are actively managed in order to qualify for all payments,

2. **Seek MINOR modifications to the existing system to make it more accessible and beneficial in the short term pre 2014.**

- h. **SFP:** The main short term urgent issues that need to be addressed include:- the non eligibility of new entrants, the treatment of common grazings, need for transitional arrangements, capping total amounts to individuals, impact of defining ineligible areas, and only payments to active farmers. Thus the **recommended** priority actions are:-
  - i. Rebase SFP in short term before 2014 with a transitional system between historic and area based schemes e.g. to enable new entrants access and new GAEC requirements e.g. minimum stock density reduced to 0.08LU/ha from 0.12LU/ha, or a different treatment for common grazings, and an upper limit of 2.5 LU/ha (as in Pack Interim Report)
  - ii. Seek use of Article 68 to top up payments e.g. for low intensity cattle system, and land abandonment areas



- iii. Seek introduction of a ceiling on individual payments
  - iv. Seek changes to cross compliance and GAEC
  - v. Seek a modification to the system to support the common management of common grazings rather than current system that disadvantages it
  - vi. Recalculate area eligible for payments so that existing payments are applied to the revised area
- i. **LFASS:** The main short term urgent issues here include:- the lack of a meaningful differential for islands in recognition of higher costs, the stock definition used for calculating density, and euro rate per hectare. Thus the **recommended** priority actions are:-
- i. Seek introduction of a fairer euro rate per hectare for Scotland so that cost shared more 50/50 than 70/30 at the moment between the SG and EU. This could help any move to increase the LFASS rates.
  - ii. Seek a greater differentiation between the most fragile and the other LFA designations and further uplift of rates for very fragile areas i.e. islands. This should also be part of the longer term case for Vulnerable Areas developed in 3 below.
  - iii. Seek a change in stock density related to the age of animals that qualify and “positive grazing management”. Currently the definition is limited to breeding ewes and breeding cattle, with no fraction for animals being finished
  - iv. Rebase basis for payment
  - v. Seek to get more detailed work undertaken in Shetland on land classification
  - vi. Seek to reduce the threshold for qualifying units to 1 hectare in conjunction with a minimum payment
  - vii. Seek priority for High Nature Value farming areas
  - viii. Consider other forms of land use than simple grazing, as this permits managing for biodiversity, carbon sequestration, access, renewable energy production, and tourist developments. The current adoption of grazing as the only meaningful land use does not offer sufficient

incentive, in the case of some large common grazings with high proportions of excluded land, to permit them to be economically managed. This will require some data gathering and analysis to support the case.

- j. **SRDP:** the main short term urgent issues that need to be addressed include:- simplification, further consideration of non-competitive LMOs, the difficulty of accessing agri environ measures, and the low ceiling on CCAGs. Thus the **recommended** priority actions are:-

- i. Seek modifications to criteria for certain schemes to make them more accessible to the Shetland industry e.g. agri environment schemes, also undertake assessment of impact of ESA/RSS schemes in Shetland in support of case. The proposal by the SCF to transfer the agri environ measures from RP to a LMO designed for crofting areas should be supported.
- ii. LMOs have been introduced recently, but the problem for Shetland is that, apart from those involving animal health and welfare, they have been poorly designed for crofting communities. Few of the measures are in the least attractive, due to small areas managed, and low intervention rates. This could be improved if a high rate were paid for the initial unit, with a reduced rate thereafter.
- iii. LMC: In the future, support should be by individual Land Management Contract on a unit by unit basis. The advantage of such a system would be that it would be possible easily to measure outcomes, and to adapt the approach where necessary.

- k. **Crofting :**

- i. CHGS :lobby for maintenance and enhancement of housing grant
- ii. CCAGs make case for continuing support and raising the grant threshold to reflect rising costs. CCAGS has been the backbone of support for crofting agriculture since 1955. There is evidence that it is becoming harder to access and this is leading to poor take up. It is recognised that there is a limit on levels of support, but a situation where the cost of managing and operating a scheme is quite disproportionate is undesirable in the current climate in particular. CCAGS should be supported and re-simplified

## I. Overall

- i. Increase advisory services support for introducing efficiencies and cost savings
- ii. Two critical indicators i.e. market driven activity and biodiversity should underlie all support

### 3. Seek more MAJOR longer term modifications to achieve a more sustainable agriculture in Shetland post 2013

The debate about what should happen post 2013 will commence in earnest after the publication of the Commission position in November thus there also needs to be an immediate focus on the longer term perspective.

There are many changes to the system that can be suggested to make it a fairer one for Shetland producers, to encourage a more sustainable industry, and to help meet the targets for carbon reduction and climate change. A long list is contained in this report, however the key actions that could make the most significant change are highlighted in the Summary Report. These take account of the Pack Final report recommendations and should form the central plank in any lobbying campaign.

- a. **LFASS:** The main issues which suggest major changes are needed include:- the need to provide adequate compensation for those with the most handicaps and in order to continue delivering public goods in the remote areas. Thus the **recommended** actions are:-

**Very Fragile Areas or Vulnerable Areas:** The **number one priority** for Shetland must be to ensure that there is greater differentiation within the LFA and that Shetland, along with other islands and similar areas e.g. North West Highlands, is designated as the area with the most severe permanent handicaps but with potential to deliver significant public benefits, and therefore is eligible for special support.

As a result the Pack report's proposal for Vulnerable Areas is supported as well as the retention of money in Pillar 2 for this purpose. It is expected that vigorous lobbying will be required on this point if there is to be any chance to get acceptance of the concept.

However it will be necessary to ensure that the criteria are appropriate, resources adequate, and systems for accessing the resources are equitable, simple, and straightforward. Shetland needs to be fully engaged in this process and seek alliances with other areas in order to strengthen the case.

Pack proposes to transfer part of the LFAS budget from Pillar 2 to Pillar 1 and to disburse it as a separate payment to top up the low SFP. As long as this does not mean a reduction in the total money available under LFAS and the system for distribution is fair then this proposal could be supported.

Other actions to consider include seeking to get Shetland and the other Scottish islands designated under Art 20 of EC reg 1257/1999, as the Scilly Isles are in England, and the inclusion of socio economic criteria as well as physical criteria.

- b. **SFP Direct Support:** The main issues which need to be addressed by a new system include:- a sense that the current system is unjust, and also produces attrition, rather than encouraging policy and strategy driven change. This is coupled to the widely expressed view that the current model is unsustainable, as is the historic basis becoming more and more remote; need to take account of local circumstances within the islands and the multi functional nature of agriculture activity; need for more stability, and need to provide adequate resources to compensate for handicaps and achieve wider public goals.

Three different components are proposed by Pack:- SFP, Top Up Fund , and headage schemes. This immediately raises concerns about the level of bureaucracy that might be needed to oversee all these different components with different conditions and requirements. If three components are to be introduced they must be simple to administer. Pack recognises the threat of LFA abandonment within his report. However what must be considered is not just the risk of “absolute abandonment” but of abandonment of fertility and the principals of capacity for crop production. It is suggested that a more appropriate and accurate system for LFA support should be explored such as, targeted area payments which better reflect and reward different agricultural uses e.g. permanent pasture, new grass, crops and rough grazing. The scheme should be administered through the data which is already supply on the IACS forms. This will require a radical shift in policy and an acceptance of some risk, however it is recommended that this course be pursued.

If three components have to be considered then the following observations are made:-

- a. **SFP:** The level this is set at is critical. It is probably too low as suggested though it depends on the other components and the calculation of eligible land. The

inclusion of land subject to an environmental scheme, as well as being actively farmed, is welcomed.

- b. TUF:** The principle of supporting active farmers through rewarding effort is supported however it is clear that Standard Labour Units will not deliver a fair result as currently defined. The figures presented could mean many crofters being worse off. Also it is not clear how this would relate to delivery of public goods such as agri environment measures as suggested in the report.

The SLR to be used would need to be carefully tailored to the different types of farming and physical conditions experienced in the LFAs. The Pack recommendation that the definition be revisited is supported, and it will be necessary to become closely involved in this process.

- c. Headage:** While the proposed headage schemes are supported and are technically possible, it is expected that the SG and UK officials will need robust support as there may be some opposition to the proposal. It is suggested that, if they are to be pursued, then payments should apply to all sheep, cattle and calves. It is also believed that fears of encouraging overstocking in order to receive larger payments are unfounded. Limits are already applied through the grazing density figures and could be easily modified.
- d.** It is important that all support systems should be complimentary, and that they can all deliver on global challenges and Scottish priorities. They should encourage more finishing of stock in the LFA as well as local food production and consumption. This would encourage more biodiversity, and reduce food miles, as well as supporting healthy food consumption. At the moment it is not easy to achieve this within the current system. This action would be in accord with the overall aim of promoting sustainable economic development while maintaining and enhancing biodiversity.

Other suggested actions and changes include:-

- e.** A ceiling on SFP to be set regionally and for individual farms in order that a fairer system is affordable
- f.** Seek maximum regionalisation and subsidiarity of SFP and for it to be based on a combination of land quality and stock or crop capacity, and farm plans. Land quality should be based on LCA with payments for poorer quality land increased, so the gap between better and more disadvantaged land is narrower
- g.** Stock density figures should recognise individual circumstances and land capacity, other use factors require to be recognised and rewarded, and area

should be recalculated so that overall support is not reduced due to ineligible land being removed.

- h. Seek the inclusion of the production of public goods and climate change amelioration into SFP calculation
  - i. Seek to have payments linked to the land rather than to a person, so that entitlements not tradable
  - j. Seek support for HNV and organic low input systems and other sustainable practices, or sustainable farm/croft scheme that would support a transition to “greener” farming
  - k. Seek targeted agri environment schemes to address specific issues
  - l. Revisit Art 68 to help encourage more cattle or HNV farming or an upland Land Managers Option
  - m. Seek the inclusion of land used for horticulture as being eligible for SFP
- c. **SRDP:** The main issues which suggest major changes are needed include:-need to ensure the new set up is less complex and more accessible for smaller farmers and crofters, and can adapt to different circumstances in different regions, and need to set up non competitive agri environ scheme. Thus the **recommended** priority actions are:-
- i. New SRDP post 2013 to be designed with a much simpler system that is accessible to all crofters and farmers
  - ii. Introduce a non competitive system for agri environment support so long as meet criteria laid down and comply with specific requirements regarding usage and management. This would be easier if Scottish Government negotiated an improved hectarage rate under Pillar 2. This is believed to be possible, and worth discussing at government level
  - iii. Need support for production of Public Goods, both environmental services such as reducing greenhouse gases, protecting biodiversity, and land management services such as landscape maintenance and compensation for extra costs in disadvantaged areas with non productive agriculture. Press Scottish Government to make progress on setting a value on public goods

- b. **Dairy sector** : the quota system is due to come to an end in 2015 but not expected to have any significant effect on Shetland producers

- c. **Crofting:**

- i. CCAGS: ensure that continues to be an eligible scheme for crofters post 2013
- ii. CHGS: This scheme is considered vital to help maintain people in rural areas and help young people starting in crofting. Press Scottish Government to publish the results of the ongoing review, now pending for three years or so
- iii. ensuring that the EC proposal for aid to small farmers is applicable and appropriate to crofters and that Scottish Government takes advantage of such opportunities as exists.

- d. **Overall**

- i. Seek to ensure small units of at least 3 hectares are still eligible or a minimum payment regardless of size (i.e. no lower limit)
- ii. Lobby for raising the Agriculture De Minimus threshold from 7500 euro to 30000 euro (as per fisheries)

Clearly an ideal system for Shetland agriculture could be one where it was easier for all holdings to access funding and where more resources were available. While this may never be easy, it could be more achievable if the Vulnerable Areas concept is adopted.

Although support for increasing production is unlikely to be possible, it would appear that support is possible for “active farming”, and coupled payments could be possible to address specific problems in particular regions. At the other end of the scale it is helpful to argue that some areas of land are in danger of abandonment in order to support the case.

The main components of a modified support system more suited to Shetland agriculture circumstances needs to take account of the diversity within the islands and the different needs of small crofters as well as the larger farmers and could look like the following:-

1. **SFP:** a direct decoupled payment based on area and a combination of land quality and productivity, and production of a farm plan with public goods and climate change actions, other cross compliance, and with a minimum stock density of 0.1 or

a separate provision for common grazings. It should be open to all holdings that make a IACs return and for units down to 1 hectare and include horticulture crops. Use should be made of Article 68 to seek support for specific challenges/opportunities such as HNV and organic low input systems, encourage more cattle and production of local food.

2. **LFASS:** Shetland should be designated as an area with significant multiple natural handicaps and eligible for the highest levels of support along with other parts of the Highlands and Islands based on the EC criteria that should be considered cumulatively. This could be as a Vulnerable Area as proposed by Pack.
3. **SRDP:** a new SRDP that allows regional variations and non competitive agri environ schemes, with simplified processes and procedures and paperwork.
4. **Crofters:** CCAGS and CCHS schemes to continue with higher grant thresholds, lower minimum threshold for eligible holdings, and be administered by the Crofting Commission, and crofters eligible for the “small farmer” support category in CAP reform paper
5. **Agriculture De Minimus:** The threshold raised to at least 30,000 euro in line with fisheries state aid limit

Thus it is likely that the emphasis should be on fairness and parity and on careful optimal targeting of what support could be available to meet different regional needs and to help achieve a more sustainable industry along with higher levels of income from sales of produce. In order to comply with the CAP post 2013 it will be necessary to have a stronger focus on defining and achieving “outcomes” for all the public money spent on the industry.

## 5.2 Recommendations for Lobbying Action

The proposals and modifications to the current support system suggested above have been discussed and broadly agreed by the industry locally. Thus the essential **first step** which is to get the industry behind the proposals for change has already been taken. The SIC needs now to adopt the proposals and it is **recommended** that Shetland seeks alliances, in the first instance with the local authorities in the Highlands and Islands, and then with other agencies and NGOs and EU wide bodies.

It is **recommended** that the first action should be responding to the Pack Final report launched on 5<sup>th</sup> November. Shetland could produce its own response, however it would be desirable if a joint response was also submitted from the H&Is.

It is **recommended** that a lobbying team should be set up and a lobbying strategy and plan drawn up based on what is in this report. This should include dates for targeting key players such as Scottish MSPs, Ministers, MPs, and Rural Spokespersons from all parties. The team



should be a small one that includes around 4 industry representatives and two from the Council.

Up to date data is vital to support a lobbying campaign as well as supporting evidence from studies and monitoring activities e.g. what has been achieved by recent actions and what could be achieved by changes. It should be possible to update the data in the report when 2010 figures become available. It is **recommended** that this should be built into the process.

It will be important to make direct representations and responses to Defra and to Brussels well before there is any agreement on the framework for the CAP reform which could be agreed by next summer.

It may also be relevant as part of this exercise, which is seeking to maximise the external funds to the agriculture sector, to consider other potential sources of external funds to help support the sector locally, whether this is from EU or national sources. It is **recommended** this is taken on board.

In summary the following actions are **recommended**:-

1. Seek support and endorsement of all local industry bodies (already done)
2. SIC to adopt the proposals (Dec 2010)
3. Set up a local lobbying group to take action forward (Dec 2010)
4. Create a timetable with the key dates for influencing changes (Dec 2010)
5. Use proposals to respond to Pack Final Report and to Government response to Pack Inquiry which likely to be about 6 weeks after publication of report (Jan 2011)
6. Present the package of proposals for changes to Scottish Government (SGRPID and Minister responsible) and Cross party Group as early as possible (Dec 2010/Jan 2011), and again after the elections in May 2011
7. Present package of proposals to relevant MSPs (all parties to influence manifestos), local MP, and Scottish MEPs (Dec 2010)
8. Seek support from other areas such as local authorities in Western Isles, Orkney, and North West Highlands and use as basis for undertaking joint lobbying on SFP and LFASS, and SRDP (Dec 2010)
9. Seek support and alliances with regional agencies and NGOs: e.g. HIE, SNH, RSPB in Scotland, and Euromontana, and CPMR at EU level (early 2011)
10. Submit proposals to DEFRA and arrange meetings (Jan 2010)

11. Use proposals to respond to EU Communication on CAP reform to be issued in November (Feb 2011)
12. Submit proposals to DGAGRI and EU Parliament Agric and Rural Development Committee (Spring 2011)

An indicative outline timetable and lobbying plan has been created below, based on the 12 action points above, to provide a starting point for further discussion and refinement.

Actions	2010		2011									
	nov	dec	jan	feb	mar	apr	may	june	july	aug	sept	oct
1												
2												
3												
4												
5												
6												
7												
8												
9												
10												
11												
12												





## **Appendix 1: Documents Consulted**

1. Pack Inquiry
  - a. Interim Report Jan 2010
  - b. Short term Recommendations June 2010
  - c. Background papers from SAC, QMS, SNH
  - d. Consultation responses on LFASS/review of literature on LFASS
  - e. Analysis of Consultation Responses to Pack, Phases 1 and 2, 2010
  - f. NFU Response on LFA 2010-2013
  - g. SCF Response to LFA 2010-2013
  - h. Final Report, November 2010
2. Responses to Consultation on Pack Interim Report (110) and other SG consultations on agric issues e.g. LFASS, CAP health check, House of Lords
  - a. NFU – local and national
  - b. SCF – local and National
  - c. SIC
  - d. Highland Council
  - e. Royal Society of Edinburgh
  - f. Crofters Commission
  - g. SAC
  - h. SAOS
  - i. NESAAG
  - j. Soil Association
  - k. RSPB
  - l. Shetland Agriculture Conservation Forum
  - m. First Stage Review of SRDP, Cook Report June 2009

3. Royal Society of Edinburgh Committee of Inquiry into the Future of Scottish Hills and Islands, report Sept 2008
4. Rural Scotland in Focus, SAC, 2010
5. Scottish Government
  - a. SRDP , 2007
  - b. Review of SRDP, Peter Cook, June 2009
  - c. Single Farm Payment Notes for Guidance, 2010
  - d. Rural Priorities, 2010
  - e. LFA 2010-2010 Consultation Paper 2008
  - f. LFA Response to Consultation report 2009
  - g. LFA SI439, 2007 and SI273 2010
  - h. LFA Explanatory Notes 2010
  - i. SG Vision for Agriculture 2010
  - j. Economic Report on Scottish Agriculture 2010, SG, June 2010
6. UK Government
  - a. UK Vision for CAP, HM Treasury and DEFRA 2007
7. European Parliament
  - a. Future of CAP post 2013, Lyon report June 2010
  - b. Agric in Areas with natural handicaps, a special health check, Dorfmann. March 2010
  - c. Simplification of CAP, Ashworth, March 2010
  - d. Proposals for outermost regions, Alves, March 2010
  - e. Agriculture Product Quality, Scotta, March 2010
  - f. Fair Revenues for farmers, Bove, February, 2010
8. European Commission
  - a. Health Check on CAP 2008/2009
  - b. Amended regulations on support schemes 72-74/2009

- c. Communication on aid to farmers in areas with natural handicaps, April 2009
  - d. DGAGRI Working papers on Agriculture and Climate Change 2009, and on Future of CAP 2010
  - e. CAP Conference Report July 2010
  - f. Pre Publication Draft of EC Communication on CAP Reform, Oct 2010
9. Other Organisations and Reports
- a. Proposals for a new CAP , various Environmental Bodies, Dec 2009
  - b. Analysis of Imp[act of CAP Health Check on Agriculture in Scotland, Queens Uni, 2008
  - c. A Three Pillar CAP, Agric Economists Conference, June 2010
  - d. Provision of Public Goods through Agriculture in EU, IEEP, 2010
  - e. Impact of UK Vision for CAP on Agriculture in Scotland, FAPRI-UK, 2009
  - f. Draft Agriculture Strategy for Shetland, A B Associates Ltd, 2010

## Appendix 2: Bodies and Individuals Consulted

Bodies	Individuals
SGRPID Edinburgh	Rosi Waterhouse, Neil Fleming, Bill Denholm
SGRPID Lerwick	David Cormack

Scottish Parliament	Tavish Scott
Shetland Islands Council	Douglas Irvine, several Councillors on Agriculture Panel at meetings
SACF	several members of Forum at a meeting
SCF	Norman Leask, Eleanor Arthur, David Smith, Peter Dodge
NFU	Kathleen Sinclair, Robert Nicolson plus several others at a meeting
SLMG	Ronnie Eunson
Pack Inquiry	a member
European Parliament	George Lyon
CPMR	Patrick Anvroin responsible for CAP working Group

### Appendix 3: Shetland Islands Council response to Pack



**Appendix 4: EC Communication on CAP Reform (Final Version November 2010)**





## **REPORT**

**To: Development Committee**

**27 January 2011**

**From: Project Manager**

**DV003-F**  
**Shetland Shellfish Management Organisation Core Funding 2011/12**

### **1.0 Introduction**

- 1.1 This report identifies the funding requirements of Shetland Shellfish Management Organisation (SSMO), for the financial year 2011/12.

### **2.0 Link to Corporate Priorities**

- 2.1 The activities of the SSMO help to achieve outcomes for the Sustainable Economy section of the Corporate Plan 2010-12. In particular, under the wealthier outcomes to “encourage sustainable fisheries by Shetland vessels under the terms of the Common Fisheries Policy” and “encourage firms operating in Shetland to develop stricter environmental criteria”.

### **3.0 Risk**

- 3.1 This report concerns a grant application towards the core funding of the SSMO. A potential risk is that the Council does not achieve best value from providing core funding to SSMO. This risk is mitigated by the provision of a business plan, which has been prepared by the organisation. This document details ambitious projects which will see fisheries management in Shetland move into a new phase. Projects include marketing and quality management, which will have a direct benefit to Shetland’s economy. These projects require very little, if any, future funding from the SIC.
- 3.2 Should a grant of less than the recommended level be approved due to the need to cut spending, this will significantly impact on the ability of SSMO to meet the salary and running costs for its sole employee who is critical to the success of the Organisation.

## **4.0 Background**

- 4.1 The SSMO is a partnership of organisations with an interest in the sustained future of Shetland's shellfish fisheries. The organisation is legally constituted as a company limited by guarantee and is run by a Board of Directors nominated by the partner organisations.
- 4.2 SSMO is granted the legal right to be responsible for the management and administration of the Regulated Fishery Order (also known as a "Regulating Order (RO)". The RO covers the management of the commercial fisheries around Shetland for lobsters, crabs, scallops, queens, whelks, razorshells, cockles, mussels and oysters.
- 4.3 The SSMO's main objectives are:
- to manage and regulate the fisheries for shellfish within Shetland's six mile limit, through the issuing of licences and the implementation of regulations and other measures, to ensure the long-term sustainability of these fisheries;
  - to promote the recovery of shellfish stocks through stock enhancement and other management measures; and
  - to promote the environmental sustainability of Shetland's shellfish fisheries.
- 4.4 The work of the SSMO in the past ten years has set the foundations for collaborative management of the inshore waters as well as develop a protocol and benchmark for data collection and analysis.
- 4.5 Shetland has a large, diverse and modern fishing industry, which is of prime importance to its economy. In 2009, 2,178 tonnes of shellfish was landed in Shetland with a value of over £5.5 million. This figure equates to 18.9% of the total value, or 14.5% of the volume, of all whitefish and shellfish landed in Shetland.
- 4.6 Shetland Shellfish Management Organisation (SSMO) is entering a key phase in terms of the long term sustainable management of the Shetland Inshore Fishery as they aim not only to deal with the day to day tasks related to the management and development of the RO and stock assessments, but to develop projects in the management of quality and marketing of produce.
- 4.7 SSMO are currently working hard to gain Marine Stewardship Council (MSC) Accreditation for Shetlands' Inshore Fishery.
- 4.8 At Development Committee on 04 March 2010 (Minute Reference 14/10), a core funding grant of £43,888 was approved for 2010/2011, £44,928 for 2011/12 and £46,000 for 2012/13, subject to budgets, following an application for a 3 year funding package from SSMO. However, this report reviews the previous grant decision given the need to cut public spending.

## 5.0 Proposal

- 5.1 SSMO have requested funding to cover its core management costs for 2011/12. These costs are detailed as follows:

	£
	<b>2011/12</b>
Salary Costs	35,736
Running Costs	6,792
Travel and Subsistence	<u>2,400</u>
<b>Total</b>	<b>44,928</b>

- 5.2 The 2011/12 funding requested is in line with the figure presented to the Committee on 04 March 2010 (Minute Reference 14/10). However following the need to cut SIC budgets it was investigated whether the Organisation could stand a proposed cut of 15% on this budget e.g. funding of £38,188.80.
- 5.3 Following discussions with the Organisation it is thought untenable to apply a suggested cut of 15% given that the grant funding is for core salary costs and minimal running costs. Without funding these basic costs there is a risk to the future of the whole Organisation and certainly to the additional work which is undertaken by the Organisation which are not funded by the core funding grant.
- 5.4 Therefore it is proposed that instead of applying a 15% cut on the funds approved on 4 March 2010 that a no growth budget on the grant approved for 2010/2011 be applied instead, e.g. a grant of £43,888 for 2011/12. This is deemed to be the minimum grant required to secure the operation of SSMO.
- 5.5 Following a report from the Head of Business Development dated 18 November 2010 (Minute Reference 70/10), it was agreed that the economic benefits of grant funding from the Shetland Islands Council be more clearly defined. With this in mind a schedule of benefits from the SSQC has been provided as Appendix 1 to the report.
- 5.6 The grant will be subject to the conditions detailed in the draft offer letter, attached as Appendix 2.

## 6.0 Financial Implication

- 6.1 The proposed grant of £43,888 will be paid from ledger code RRD2123 2402. This is subject to the approval of the 2011/12 revenue estimates.

## **7.0 Policy and Delegated Authority**

- 7.1 This report is in line with Economic Development Policies number 1 “Rebuild confidence in the fish catching industry, number 2 “Enhance Shetland’s reputation as a high quality producer of fish and fish products” and number 27 “Enable individuals to achieve their full economic potential”. The Economic Development Policy Statement was approved by the Development Committee on 24 April 2008 (02/08) and by the Council on 14 May 2008 (55/08).
- 7.2 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.

## **8.0 Observations**

- 8.1 The Shetland Shellfish catching sector could be described as a cornerstone of economic sustainability for many of Shetland’s rural communities given the wide geographic location of the inshore fleet.
- 8.2 The successful management provided by the SSMO has resulted in sustainable long term fisheries support to fishermen and processors.
- 8.3 SIC funding of the core costs of SSMO will ensure a strong foundation from which the organisation can build on to fulfill its ambitious MSC project for accreditation for the management of stocks and support to the quality and marketing of produce. The accreditation is not just about potentially adding value it is about sustaining current markets and accessing new ones for the longer term.
- 8.4 As a result Shetland is strongly placed to become a leader in Inshore Management through the application of the Regulating Order and provide expertise within Shetland to contribute to its success and long-term goals.
- 8.5 Without the management work undertaken by SSMO there would be no restrictions on fishing within the six mile limit that will result in an open access fishery for any UK licensed vessel using unrestricted gear. The licensing role provided by SSMO is just one of the tools which is used for management of the inshore fishery; they also use closed periods, minimum landing sizes and gear restrictions. All of these combine to help ensure the long-term sustainability of the fishery.

- 8.6 Shetland is currently one of the only areas in the UK, which is showing a stable scallop stock, which is a useful measure of the Regulating Order's success.
- 8.7 The grant requested is recognised as being higher than the current level of grant support provided by the SIC but the work of SSMO has changed considerably since the current level of support was set five years ago. In addition, the role of the Executive Officer has been extended and therefore demands higher employment costs than previously to ensure that the post attracts the calibre of candidate required to fulfil this enhanced post.

## **9.0 Conclusions**

- 9.1 SSMO provides a valuable service to the management and administration of the Regulating Order and by approving to fund the core costs of the organisation the SIC will ensure that the SSMO has a firm foundation to build on the work it currently does by undertaking a series of projects which are new in Shetland. As a result Shetland can become the leader in this form of fisheries management.

## **10.0 Recommendations**

- 10.1 I recommend that the Committee agree to provide SSMO with a core funding grant of £43,888 for the financial year 2011/12 which will be monitored against the measures found in Appendix 1 and subject to the conditions found in the offer letter attached as Appendix 2.

Our Ref: SK/RF677  
Date: 19 January 2011

Report No: DV003-F





## APPENDIX 1

### ECONOMIC BENEFITS FROM PROVISION OF SSMO CORE FUNDING 2011/12

It can be argued that the benefits achieved by providing core funding are restricted to the provision of an individual post. However, it can also be argued that by providing core funding it enables an Organisation to lever in finance to do additional projects.

For the purpose of defining the benefits associated with the provision of this proposed grant to SSMO the benefit from these additional projects are included below as they are indirectly achieved through the provision of core funding.

Measurable Benefits	Details	Achieved by Date
Total Jobs Maintained	1 directly 94 Indirectly (Inshore Fishermen)	March 2012
Total Jobs impact	95 FTE jobs	March 2012
Total Impact on the Shetland Economy	Percentage to be calculated on completion of Dependency Model	Sept 2011

Other Measurable Benefits	Details	Achieved by Date
New product or service	The development and implementation of Shetland Inshore Dependency Model.  This will enable an economic value to be attributed to each grid square within the six-mile limit.	April 2011
	Development and Implementation of Effort Management Model	May 2011
Marketing and Quality Improvement	Represent SSMO at local and national level to further the knowledge and appreciation the Shetland shellfish product, including attendance at Brussels Fishing Expo.	May 2011

	Development of bid for Marketing Initiative for Shetland MSC products. This includes initial meetings, starting April 2011, Development of Bid in June 2011 and Implementation and Delivery by March 2012.	March 2012
	Develop Quality Standard and Audit in conjunction with NAFC Marine Centre and SSQC. This includes initial meetings starting in April 2011, Consultation and standard development by July 2011 and the pilot of standard delivery by September 2011.	March 2012

Non Measurable Benefits	Details	Achieved by Date
<b>Environmental Improvements</b>	Renewal of the Shetland Regulating Order, including discussions with Marine Scotland in April 2011, consultation in July 2011, Report delivery in September 2011 and new order complete by March 2012.	Various
	Completion of Shetland Shellfish Fishery MSC Certification	June 2011
	Implementation and monitoring of Spatial Habitat Plan	Sept 2011
	Complete MSC Assessment Process	June 2011
	Final implementation and development of Habitat Spatial Plan	May 2011
<b>Skills Development</b>	Support Apprentice Scheme to allow entry to the fishery, in conjunction with NAFC	March 2012



# Shetland Islands Council

Head of Economic Development: Neil Grant  
 Chief Executive: Alistair Buchan

Shetland Shellfish Management Organisation  
 Stewart Building  
 Esplanade  
 Lerwick  
 Shetland  
 ZE1 0LL

**Economic Development Unit**  
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[development@shetland.gov.uk](mailto:development@shetland.gov.uk)  
[www.shetland.gov.uk](http://www.shetland.gov.uk)

If calling please ask for  
**Sheila Keith**  
 Direct Dial: 01595 744967

Our Ref: SK/RF677/DV003  
 Your Ref:

Date:

Dear Sir

## Core Funding for 2011/12

On behalf of Shetland Islands Council ("the Council"), I am pleased to offer Shetland Shellfish Management Organisation ("the Organisation") grant assistance of £43,888 (Forty Three Thousand Eight Hundred and Eighty Eight Pounds) for the provision of core funding of the Organisation for the year 2011/12, subject to the following conditions:

1. The purpose of the grant is to enable the Organisation to implement its business plan for 2011/12. Any future changes to the terms of the business plan must be notified to and agreed by the Council being implemented.
2. The grants will be paid to the Organisation in four equal quarterly instalments, April 2011, July 2011, October 2011 and January 2012.
3. The Organisation will supply the Council, or its nominee, with quarterly income and expenditure accounts within 21 days of the end of each quarter and will, by 31 December 2010, submit income and expenditure projections for the remainder of the year to 31 March 2011 and for the period 1 April 2011 to 31 March 2012.
4. The Organisation will, by 31 August 2012, provide an actual statement of the income and expenditure of the Organisation, showing clearly the funding obtained from external sources and the final deficit in running costs for the financial year 2011/2012. If the actual deficit is lower than the amount awarded by the Council at the beginning of the year, the Council, or its nominee, reserve the right, at its sole discretion, to reclaim the difference or to deduct it from any the aforementioned grant offer.
5. The Organisation will manage the Regulating Order, on behalf of the Council.

6. The Organisation will endeavour to secure external funding for any additional projects to their core activities, i.e. the MSC Certification of the shellfish species.
7. The Organisation will work with bodies such as the NAFC, Scottish Government and MSC to develop best practice for the inclusion of small inshore fisheries into the MSC process.
8. The Organisation work towards the development of a Best Practice Guide for the shellfish sector in Shetland.
9. The Organisation will work in partnership with the NAFC to secure and produce the Scottish Industry Science Partnership (SISP) Project and to produce an annual stock assessment allowing proactive management decision making
10. The Organisation will supply a copy of its professionally audited accounts within nine months of the end of its financial year.
11. The Organisation will supply on request any additional information the Council, or its nominee, may require to monitor the conditions under which the grant is made.
12. The Organisation will ensure that appropriate insurance is in place.
- 13. In the event of a breach of the foregoing conditions, the Council, or its nominee, may, at its sole discretion, require repayment of all or part of the grant, and may also disqualify the Organisation from receiving any other grant or loan in terms of the Schemes operated by the Council, or its nominee.**
14. Grant recipients must inform the Council, or its nominee, of any changes in circumstances affecting the grant conditions, in particular if the Organisation gives up the business/work for which grant assistance was given.

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

This offer of grant is valid only until 31 March 2012. If, by that date, the grant has not been claimed or 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.

A spare copy of this letter is enclosed for your retention.

Yours faithfully

Head of Economic Development

Enc

We,..... and .....  
being two authorised signatories of the Shetland Shellfish Management Organisation,  
accept the offer of grant on the conditions specified in the attached offer letter dated  
XXXXXXXXXXXXXXXXXX.

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

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

draft





## **REPORT**

**To: Development Committee**

**27 January 2011**

**From: Project Manager**

### **DV002-F Shetland Seafood Quality Control (SSQC) Funding**

#### **1.0 Introduction**

- 1.1 This report recommends the provision of core funding for Shetland Seafood Quality Control (SSQC) of up to £188,952 for the financial year 2011-2012.

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

- 2.1 The activity of SSQC help to achieve outcomes for the Sustainable Economy section of the Corporate Plan 2010-12. In particular, under the wealthier outcomes of “assisting businesses to develop quality products” and “encourage sustainable fisheries by Shetland vessels under the terms of the Common Fisheries Policy”, and under the smarter outcomes which enable skills to be developed to match economic needs.

#### **3.0 Risk**

- 3.1 This report concerns a funding request from SSQC which supplies general services to the fisheries industries located in Shetland. The complexity of the business gives risk to non compliance with state aid regulations. Therefore the provision of grant funding to SSQC was developed as a scheme and notified to the EU in June 2010. The scheme covers funding provision of up to £250,000 per annum between 2010 and 31<sup>st</sup> December 2013 thus minimising the risk of providing grant funding to the business.
- 3.2 The scheme covers a grant to fund the Salmon Inspection Services and Whitefish Improvement Scheme up to 80% and Analytical and Marine Farm Services grant aid of up to 100% will be paid due to the status of SSQC being a company limited by guarantee whereby all profits are reinvested into the industry for its benefit, no dividends are paid.

## **4.0 Background**

- 4.1 The SSQC receives grant funding from the Council in return for providing a diverse range of services to the Shetland community.
- 4.2 The organisation has grown from a one man operation with a 50/50 input from industry and local government funding to a company that now employs 15 full-time equivalent members of staff. SSQC has remained flexible in changing with industry and its legislative requirements and has grown with the seafood industry by successfully developing eleven different seafood core activities over its 25 year history.

## **5.0 Proposal**

- 5.1 The SSQC have requested funding to assist the non commercial activities provided by the business. These activities include the aspects covered by the SSQC Scheme which has previously been notified to the EU, namely the Salmon Inspectorate Services, Whitefish Improvement Scheme, and Analytical and Marine Farm Services. The provision of this funding will allow the Council to achieve objectives within the Corporate Plan, Economic Development Unit Service Plan and part delivery of the Shetland Seafood Development Plan.
- 5.2 Following the need to reduce SIC spending SSQC were asked to prepare for a budget cut of 15% on their core funding request for 2010/11. SSQC have worked hard to comply with this budget cut and have applied for a core funding grant of £173,238 for the financial year 2011/12. However, a budget cut at this level leaves a deficit of £15,714 for that financial year, which SSQC will struggle to meet unless sales exceed projected figures.
- 5.3 Therefore it is recommended that although £173,238 has been requested, the sum of £188,952 be provided for the SSQC core funding in 2011/12 with the contingency variance of £15,714 only being drawn if required.
- 5.4 The provision of grant funding of £188,952 represents a 7.3% budget cut on 2010/11 core funding provision. If SSQC does not make a deficit in 2011/12 a grant of £173,238 will be provided representing a 15% budget cut.
- 5.5 Following a report from the Head of Business Development to Committee on 18 November 2010 (Minute Reference 70/10), it was agreed that the economic benefits of grant funding from the Shetland Islands Council be more clearly defined. With this in mind a schedule of benefits from the SSQC has been provided as Appendix 1 to the report. There are also a number of qualitative measures defined in Appendix 1 which will be monitored for the financial year 2011/12.



- 5.6 The grant will be subject to the conditions detailed in the draft offer letter, attached as Appendix 2.

## 6.0 Financial Implications

- 6.1 The financial projections for SSQC for 2011/12 are as follows:

### Income

Micro Lab	£159,599	
Chemistry	£ 59,412	
Inspectorate	£106,578	
Marine Farm Service	£141,910	
SIC Grant	<u>£173,238</u>	
		£640,737

### Expenditure

Consumables	£ 60,877	
Salaries and Staffing Costs	£422,897	
Boat and Vehicle Expenses	£ 13,474	
Travel and Catering	£ 4,723	
IT and Services	£ 4,766	
Professional Fees (inc. NAFC recharge)	£125,796	
Marketing	£ 1,000	
Equipment Costs	£ 22,712	
Finance Costs	<u>£ 206</u>	
		<u>£656,451</u>
Deficit		(£15,714)
SIC Contingency Grant		<u>£15,714</u>
Net Profit/Loss		<u>£ 0</u>

- 6.2 The SIC Grant will be used to fund the non-commercial activities within each of the following headings:

Salmon Inspectorate Service	£ 38,803
Whitefish Improvement Scheme	£ 60,350
Analytical Services	£ 47,375
Marine Farm Services	<u>£ 26,711</u>
Total Grant	£173,239

- 6.3 The majority of the SSQC core funding grant, £173,238 will be paid from the SSQC budget code RRD 2122 2402, with the contingency of £15,714 being provided from budget RRD 2120 2402 Fisheries General Assistance, should it be required. This is subject to the approval of the 2011/12 revenue estimates.

## **7.0 Policy and Delegated Authority**

7.1 This report has been prepared with regard to a combination of elements of the Economic Development Policy Statement, including:

- 1 rebuild confidence in the fish catching industry
- 2 enhance Shetland's reputation as a high quality producer of fish and fish products
- 3 encourage sustainable growth in Shetland's aquaculture industry
- 21 encourage new activities not presently located in Shetland
- 27 enable individuals to achieve their full economic potential

The Economic Development Policy Statement was approved by the Development Committee on 24 April 2008 (02/08) and by the Council on 14 May 2008 (55/08).

7.2 In accordance with Section 11 of the Council's scheme of delegation, the Development Committee has delegated authority to implement decisions within its remit for which the overall objectives have been approved by the Council, in addition to appropriate budget provision, including:

- Economic Strategy
- Europe

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

## **8.0 Conclusions**

8.1 This report advises Members of the funding requirements of SSQC for the financial year 2011/12 and the subsequent economic benefits of providing the required core funding grant.

## **9.0 Recommendations**

9.1 I recommend that the Committee agree to provide a grant of up to £188,952 to the SSQC for provision of core funding for 2011/12, subject to the approval of budgets in the 2011/12 estimates process, availability of funds, and the conditions found in the draft offer letter attached as Appendix 2.

Our Ref: SK/RF339  
19 January 2011

Report No: DV002-F

## ECONOMIC BENEFITS FROM PROVISION OF SSQC CORE FUNDING 2011/12

Measurable Benefits	Details	Achieved by Date
Jobs Created	Project co-ordinator role for expanded development services	April 2011
Jobs Maintained	15 staff	March 2012
Total Jobs Impact	16 staff	March 2012
Turnover Generated	Forecast for 2011-2012 income generated not including SIC grant: £467K	March 2012
Turnover Maintained	Actual 2010-2011 income generated not including SIC grant £450K	March 2011
Total Impact on Economy	Economic benefit using type II employment multiplier: £467,000 * 1.74 = £812,500 (Local professional service factor: 1.74 source: University of Aberdeen Business School)	March 2011

Other Measurable Benefits	Details	Achieved by Date
New product or services	Funding will allow SSQC to develop training and work experience partnerships with NAFC, local schools, Train Shetland and the Engineering Development trust at Strathclyde University (STEM and Go4Set). We aim to see an increase of students accessing SSQC laboratories for work experience and project themes prior to third level education in a science based discipline. The service will allow students to get a true experience of routine requirements in a professional laboratory. During 2010, 18 individual students came to SSQC for week to 3 month blocks. These figures will increase in 2011/12	March 2012
Improved product or service	Additional staff time on the fish market will allow for a more comprehensive and efficient service for both markets and the salmon scheme. Funding will help improve efficiency in report dissemination to the user group.	August 2011
New Market	Delivery of Laboratory Technician training in partnership with Train Shetland and day course training development with NAFC. This will add another valuable service to SSQC's remit	May 2012
Improved	£17k increase on 2010/11	March 2012

Productivity		
Turnover per employee	£29K (£467K/16 staff)	March 2012
Costs Reduction	£15k reduction in cost of sales forecast for 2011-2012	March 2012
Increase in exports	Aim to increase services to UK companies engaged in exporting to £25K for the income generated (or 5%) not attributed by the SIC grant	March 2012

<b>Non Measurable Benefits</b>	<b>Details</b>	<b>Achieved by Date</b>
Impact on Shetland Brand	SSQC helps ensure that the correct quality and environmental image for each seafood sector in Shetland is maintained. The organisation is also responsible for testing and survey requirements of non-seafood industries such as swimming pools, boats, non-seafood industries, port and harbours and research and development.	On-going
Environmental Improvements	Reduction in paper usage by electronic audit reporting.	March 2012
Improved staff working conditions	Inclusion of new air conditioning system at NAFC has improved laboratory and office working conditions	2010
Development in remote areas	Accreditation, best practice and quality standard development for companies in remote areas	March 2012
Skills development	In-house training of staff in order to maintain a specialised, multi-disciplined, competent team	On-going

## SSQC PROVISION OF CORE FUNDING 2011/12 QUANTITATIVE MEASURES FOR MONITORING PURPOSES

<b>Description</b>	<b>Number</b>
Aquaculture industry meetings	6
Aquaculture process and production audits	60
Whitefish industry meetings	5
Fishmarket inspections	200
Fishmarket box checks	1,100
Promotional events - Science fair & Food Festival	2
Outreach community meetings	6
Individual school student work experience	15
Individual third level student work experience	3

Modern Apprenticeship Science SVQ 3 in conjunction with Train Shetland	1
SSQC in-house student program	1
STEM - School project mentoring role in conjunction with the Engineering Development Trusts Go4Set program at Strathclyde University	1
Site visits from schools, government agencies and Seafood industry representatives	12
Advice and guidance queries	175

### Development and Expansion of SSQC Services

Not included but supplementary to the service above, recent EFF/SIC funding will allow for the following to take place in 2011/12:

- Increase in reporting and quality checking of whitefish landings.
- Provision of faster electronic quality statistics on fish landings.
- Ensure food safety regulations are undertaken efficiently at processor premises.
- Use of Safe and Local Supplier Approval (SALSA) accreditation to ensure processors are working to a recognised quality standard.

Description	Number
Box checks	1,000: Total: 2,100
Inspection reports	200: Total: 400
Processor development: Shetland seafood processors	10
SALSA accreditation: Shetland seafood processors	10

Our Ref: SK/RF339  
12 January 2011

Report No: DV002-D





## Shetland Islands Council

Head of Economic Development: Neil Grant  
**Chief Executive: Alistair Buchan**

Seafood Quality Control Ltd.  
Port Arthur  
Scalloway  
Shetland  
ZE1 0UN

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

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

If calling please ask for  
**Sheila Keith**  
Direct Dial: 01595 744967

Our Ref: SK/RF39/DV002  
Your Ref:

Date:

Dear Sir

### **Funding for 2011/12 – Shetland Seafood Quality Control Grant Scheme**

On behalf of Shetland Islands Council ("the Council"), I am pleased to offer Shetland Seafood Quality Control ("the Organisation") grant assistance of £173,238 (One Hundred and Seventy Three Thousand, Two Hundred and Thirty Eight Pounds) for funding activities of the Salmon Inspection Service, Whitefish Improvement Service, Analytical Services and Marine Farm Services which comply with the attached grant scheme, for the financial year 2011/12.

A further £15,714 (Fifteen Thousand, Seven Hundred and Forteen Pounds) can be claimed in January 2012, upon written request to the Head of Economic Development justifying the need for the funding should sales not reach the required level to cover the deficit predicted in the SSQC budget for 2011/12.

This funding will be allocated as follows:

The grant will be paid subject to the following conditions:

1. The purpose of the grant is to enable the Organisation to implement the objectives of the Shetland Seafood Quality Control Grant Scheme. Claims cannot be made for activities which are outwith the terms and conditions of this scheme.
2. The grants will be paid to the Organisation in four equal quarterly instalments, April 2011, July 2011, October 2011 and January 2012.

3. Funding for 2012/2013 will be subject to the presentation of a report to the Development Committee for approval in early 2012. Therefore projections for the financial period for which funding is requested must be provided by 31 December 2011 to ensure a report is written with due consideration and in a timely manner for a decision prior to the start of the 2012/2013 financial year. Any future approval will be awarded subject to available budgets and the decision of the Development Committee.
4. The Organisation will supply the Council, or its nominee, with quarterly income and expenditure accounts within 21 days of the end of each quarter and will, by 31 December 2011, submit income and expenditure projections for the remainder of the year to 31 March 2012.
5. The Organisation will, by 31 August 2012, provide an actual statement of the income and expenditure of the Organisation, showing clearly the funding obtained from external sources and the final deficit in running costs for the financial year 2011/2012. If the actual deficit is lower than the amount awarded by the Council at the beginning of the year, the Council, or its nominee, reserve the right, at its sole discretion, to reclaim the difference or to deduct it from any future grant.
6. The Organisation will endeavour to secure external funding for any additional projects to its core activities and for sums which may reduce the amount of money presently sought from the Council.
7. The Organisation will, by 30 June 2012, provide a report on the Organisation's performance over the year.
8. The Organisation will supply a copy of its professionally audited accounts within nine months of the end of the financial year.
9. The Organisation will maintain and operate its premises, machinery and equipment in such a way as to conform, to the satisfaction of the Council, or its nominee, with current Health and Safety legislation, and other relevant legislation.
10. The grant is offered to you under the Shetland Seafood Quality Control Grant Scheme which was registered with the Directorate General for Maritime Affairs and Fisheries Under number: XF 12/2010. The Scheme is operated by the Council, in line with the Block Exemption Regulations 736/2008 Article 17, "Aid for Collective Actions".
11. The Organisation will supply on request any additional information the Council, or its nominee, may require to monitor the conditions under which the grant is made.
12. The Organisation will ensure that appropriate insurance is in place.
13. **In the event of a breach of the foregoing conditions, the Council, or its nominee, may, at its sole discretion, require repayment of all or part of the grant, and may also disqualify the Organisation from receiving any other grant or loan in terms of the Schemes operated by the Council, or its nominee.**
14. Grant recipients must inform the Council, or its nominee, of any changes in circumstances affecting the grant conditions, in particular if the Organisation gives up the business/work for which grant assistance was given.



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

This offer of grant is valid only until 31 March 2012. If, by that date, the grant has not been claimed or 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.

A spare copy of this letter is enclosed for your retention.

Yours faithfully

Head of Economic Development

Enc

We,..... and .....  
being two authorised signatories of the Shetland Seafood Quality Control, accept the offer of grant on the conditions specified in the attached offer letter dated **xxxxxxxxxxxxxxxxxxxxxx**.

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

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





## **REPORT**

**To:           Development Committee**

**27 January 2011**

**From:       Head of Economic Development**

**Report No: DV010-F**  
**Shetland Regional Accounts 2011**

### **1.0   Introduction**

- 1.1   The purpose of this report is to recommend that the Council undertakes a full Input/Output study of the Shetland Islands Economy in 2011.

### **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 aims contained in the Economic Development Policy Statement (2007-2011).

### **3.0   Risk Management**

- 3.1   There are no significant risks associated with the recommendations.

### **4.0   Background**

- 4.1   Detailed economic studies, termed Input-Output studies have been undertaken in Shetland since 1971. This would be the seventh such study, the last being in 2003.
- 4.2   The 2003 Input-Output tables have been used to predict the effect of changes in particular industrial sectors on the wider economy. The information is also used in the preparation of business cases to attract in external funding, and to help make political cases when necessary. In other words these tables form the basis on which we measure the Shetland Economy and its development.

- 4.3 The data in the last study is now almost eight years old and becoming dated and of limited use. This is also an opportune time to conduct a new study with major developments in oil and gas, telecommunications, renewable energy. Also, with the public sector spend reductions and the opportunity to better integrate public sector services.
- 4.4 The last study was conducted by the University of Aberdeen Business School & AB Associates and cost £36,660 to produce.

## **5.0 Proposal**

- 5.1 To conduct a full input/output study using specialist organisations. The scope of the study to be put out to tender is attached in Appendix 1.
- 5.2 Highlands & Islands Enterprise (HIE) intend to conduct future, six monthly, economic reviews using the same model to ensure that the information remains up to date going forward.

## **6.0 Financial Implications**

- 6.1 Funding for this study, up to £40,000 would be taken from RRD15001760 Other Research, and RRD15612402 Rural Population and will be split 25% in the current year and 75% in the next financial year subject to the Council's budgetary processes.

## **7.0 Policy and Delegated Authority**

- 7.1 This report has been prepared in relation to the Main Aim of the Economic Development Policy Statement 2007-2011, "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". The Policy Statement was approved by the Development Committee on 24 April 2008 (02/08) and by the Council on 14 May 2008 (55/08).
- 7.2 In accordance with Section 11.0 of the Council's Scheme of Delegations, the Development Committee has delegated authority to implement decisions within the remit for which the overall objectives have been approved by the Council, in addition to appropriate budget provision, including:
- Economy
  - Europe

## **8.0 Conclusions**

- 8.1 The proposed Input – Output study is required to measure the Shetland economy and the growth of the sectors within the economy, and to enable properly informed decisions to be taken on Economic Development Policy and Investment decisions.

## **9.0 Recommendations**

- 9.1 It is recommended that the Committee give delegated authority to the Head of Economic Development to tender and commission the economic Input-Output study, the scope of which is contained in Appendix 1.

Our Ref: NG/KLM/RF702  
Date: 19 January 2011

Report No: DV010-F

### Appendices

Appendix 1 – Study Brief

## **Study Brief for Shetland Input/Output Project**

### **An Invitation to Tender**

#### **1.0 Introduction**

1.1 Shetland Islands Council, wishes to commission a study to construct an Input-Output (I-O) table for Shetland along with ancillary datasets. This work will also include use of the table and datasets to analyse changes in the Shetland economy over recent years. Details of the project requirements, timescale and budget are included in this invitation to tender.

#### **2.0 Background**

2.1 Six previous I-O tables have been prepared for Shetland. These have proven to be extremely useful to gauge the economic impact of new projects and the reduction of activity in some industry sectors. They have also been very useful when applications have been made for external finance or when there is a need to lobby external agencies for support. The I-O tables are used by a variety of public agencies and private interests in Shetland for these purposes. A copy of the 2003 study is attached to this invitation to tender to act as a guide during the tendering process.

#### **3.0 Approach**

3.1 The invitation to tender has been sent to a number of agencies and companies that all have experience in the preparation of I-O tables and datasets. While cost will be a factor in deciding the successful tender, the project sponsors are equally interested in the quality of submission, previous work and compatibility with the 2003 table. The project sponsors shall meet with the consultant appointed after the tendering exercise to finalise the content of the I-O tables, datasets and other requirements specified in this study brief. Intermediate milestone meetings will be agreed between the consultant and the project sponsors at this inception meeting, as will the arrangements for the presentation of the final report. The consultant shall be expected to prepare monthly progress reports on the project.

#### **4.0 General Purpose of the Study**

4.1 The principal objectives of the study are as follows:

- 4.1.1 Construct an I-O table for the Shetland economy that is consistent with recognised I-O accounting conventions and formats;
- 4.1.2 Compile a Shetland Occupational Employment by Industry Matrix compatible with the core I-O table;
- 4.1.3 Analyse the I-O table and related data and provide comment on the current structure and recent performance of the Shetland economy;

- 4.1.4 Compare and analyse the results of objective 4.1.3 above with the previous results of the 2003 I-O table and provide comment on any changes to the Shetland economy during that time. It is particularly important that the study identifies trends rather than minor fluctuations in the economy with comparisons to wider regional/national economic performance during this period; and,
- 4.1.5 Provide a compute package that will enable the project sponsors to complete impact analysis and simulations on the data on an in-house basis.

## **5.0 Specific Requirements of the Study**

- 5.1 Within the principal objectives described above a number of specific requirements of the study can be identified:
  - 5.1.1 To ensure consistency with the 2003 study the current I-O table should be compiled for the 2011 calendar year. Information relating to the 2011/12 financial year may also be used if it is more readily available and can be factored into the I-O table without causing distorted results.
  - 5.1.2 The Shetland I-O table should be as comprehensive and detailed as data availability and resources allow. In particular key local sectors and markets must be identified separately. These key areas will be finalised in discussion between the project sponsors and the consultant. It is anticipated that all the sectors specified in the 2003 study will be included unless there are technical reasons to make changes.
  - 5.1.3 Using the I-O table and other available statistics, regional accounts based performance indicators should be calculated for Shetland. These should include: per capita GDP, balance of trade, workforce participation rates etc and comparisons should be made with earlier Shetland I-O tables.
  - 5.1.4 Where information allows, comparison with GDP figures and the economic structure for other areas should be undertaken i.e. at UK, Scottish and EU level, the Highlands and Islands region and between other local authority areas such as Orkney and the Western Isles. Trends in these areas since 2003 should be identified along with forecasts on how these trends may continue.
  - 5.1.5 The occupation/industry matrix must be fully compatible with the I-O table in terms of both base year and industrial sectors\*.
  - 5.1.6 Based upon models derived from the I-O table and datasets, the study will provide quantitative estimates of aspects of the Shetland economy. These will include, for example: estimates of conventional output; income and employment multipliers; measures of sectoral backward and forward linkages; and, final market multipliers.

5.1.7 A limited number of specific case study analyses will be undertaken within this project. These case studies will be agreed between the project sponsors and the consultant at the time of project inception and are likely to include:

- conventional impact analyses of key sectors and markets, such as seafood, energy and tourism
- an examination of Shetland Household expenditure with respect to estimating “local” versus “non-local” content
- an estimate of Shetland’s exchequer balance, with regards to all extra-islands government outgoings and receipts
- analysis of Shetland’s embodied trade in skills. For example, what is the domestic embodied skill content of Shetland’s exports?
- analysis of the impact on the Shetland economy by providing high speed telecommunications infrastructure.
- analysis of the impact on the Shetland economy of the predicted reductions in public sector spending.

5.1.8 In addition to a final written report, expressed in terms of plain English, the study output also includes a database computer package that will enable the project sponsors to undertake impact analysis and simulations in-house.

## **6.0 Timescale**

6.1 It is anticipated that the study will be completed in no more than 10 calendar months from the date when the contract is issued to the successful tenderer. Proposals should include a detailed work schedule incorporating the following study “milestones”:

- Preparatory work
- Data collection and processing
- Compilation of I-O table and ancillary matrices
- Analysis
- Write up and presentation

## **7.0 Presentation of Results**

7.1 The results of the study should be presented as a single written report containing: an executive summary; study background details; the methods applied and sources of information used; the I-O table and ancillary datasets; detailed analyses as specified in section 5 of this study brief; and additional comments as appropriate.



7.2 What is required is a presentation similar to the 2003 exercise. However, from the wider public use of the 2003 study, it is apparent that there is a need to modify the use of technical language, when possible, to enable a better understanding of the study's content by non technical users.

7.3 Five copies of the report are required.

## **8.0 Budget**

8.1 The total budget available for this project is £40,000.

## **9.0 Presentation of Proposals**

9.1 In addition to the information requested earlier in this brief, proposals should contain the following:

- A quotation for the complete study, including a breakdown of costs into staff, travel, subsistence, and other expenditure. Costs should allow for attendance at three meetings in Lerwick;
- Full CV's for all members of the study team;
- If relevant, details of the nature and extent of any proposed sub-contracting of any part of the project;
- Details of the sources of information to be used, the methods to be applied including any survey work that is needed; and,
- A statement of similar studies/work carried out.

## **10.0 Submissions**

10.1 Sealed submissions marked "Input – Output Study" should be returned to:

Head of Legal and Administration  
Shetland Islands Council  
4 Market Street  
Lerwick  
Shetland  
ZE1 0JN

**For receipt by Noon, on Friday 04 March 2011**

\* Please note that a comprehensive employers survey will be conducted by Shetland Islands Council in June 2011. The output from this survey will be made available for use in the completion of this study as will the output of any more specific research work that relates to the study period and is owned by any of the project sponsors.