

**Development Committee****29 May 2013****Development Services Directorate - Quarter 4 Performance Overview****Report No: DSD-09-13-F****Report Presented by Director of Development Services****Development Services****1.0 Summary**

- 1.1 This report summarises the activity and performance of the Development Services Directorate for 12 months up to the end of March 2013, against the objectives and actions in the 2012/13 Development Directorate Plan.

2.0 Decisions Required

- 2.1 Members are requested to discuss the contents of this report and comment on progress against objectives and outcomes to inform the activity for the remainder of this financial year and to inform the planning process for the next and future years.

3.0 Detail

- 3.1 The Development Committee endorsed the Development Directorate Plan on 21 June 2012 (Min Ref DC 36/12).
- 3.2 The Council's Planning and Performance Management Framework and the Council's constitutional arrangements require periodic reporting of activity and performance to functional committees. The Development Directorate report will be reported to Development, Social Services, and Education & Families Committees, in line with the reporting requirements of each of the services in the Development Directorate.
- 3.3 The Development Directorate Plan identified 19 Directorate wide objectives. Appendix 1 details the progress on objectives.
- 3.4 The Development Directorate Plan, including each service area's improvement plan, also identified 71 actions for implementation within the individual services areas. The overall performance for the directorate against all actions are that 52% of actions were complete or on track and classed as 'Green' and 48% were progressing and classed as 'Amber'. Details of the actions are classified in table 1.

Service	Number of Actions	RAG Rating	Number	%
Directorate Plan	19	Green	7	37%
		Amber	12	63%
		Red	0	0%
Community Planning & Development	19	Green	9	52%
		Amber	10	48%
		Red	0	0%
Economic Development	9	Green	6	67%
		Amber	3	33%
		Red	0	0%
Housing	11	Green	5	45%
		Amber	6	55%
		Red	0	0%
Planning	5	Green	5	100%
		Amber	0	0%
		Red	0	0%
Transport Planning	7	Green	1	14%
		Amber	6	86%
		Red	0	0%
Shetland College & Train Shetland*	20	Green	14	70%
		Amber	6	30%
		Red	0	0%
Development Services Directorate Plan Total	90	Green	47	52%
		Amber	43	48%
		Red	0	0%

(* Shetland College year commences July)

4.0 Budget

- 4.1 A detailed report on the year – end financial position of the Council will be presented to Executive Committee on 3 June 2013, and to Council on 12 June 2013.
- 4.2 **Revenue Expenditure:** At the end of 2012/13 the Directorate is estimated to be £2,021,160 under-spent against its Revenue Budget of £18,658,746.
- 4.3 **Capital Expenditure:** At the end of 2012/13 the Directorate was £397,437 over-spent against its budget of £2,638,676. There are 6 projects which make up this budget; Broadband 1 & 2, Inter Island Transport Links, Fetlar Breakwater, Shetland College P3 and Skerries South Mouth Dredging.

5.0 Implications

Strategic

5.1 Delivery On Corporate Priorities – Effective Planning and Performance Management are key features of the Council's Improvement Plan and part of the "Organising our Business" priority in the Council's improvement Plan.

5.2 Community /Stakeholder Issues – Consultation with customers and other stakeholders is on-going as an integral part of each aspect of service delivery.

5.3 Policy And/Or Delegated Authority –

The Council's Constitution – Part C - Scheme of Administration and Delegations provides in its terms of reference for Functional Committees (2.3.1 (2)) that they;

"Monitor and review achievement of key outcomes in the Service Plans within their functional area by ensuring –

- a. Appropriate performance measures are in place, and to monitor the relevant Planning and Performance Management Framework.
- b. Best value in the use of resources to achieve these key outcomes is met within a performance culture of continuous improvement and customer focus."

5.4 Risk Management – Embedding a culture of continuous improvement and customer focus are key aspects of the Council's improvement activity. Effective performance management is an important component of that which requires the production and consideration of these reports. Failure to deliver and embed this increases the risk of the Council working inefficiently, failing to focus on customer needs and being subject to further negative external scrutiny.

5.5 Equalities, Health And Human Rights – As part of the process of change, Equality Impact Assessments will be carried out to ensure that there are no disproportionate, adverse affects on the rights of particular groups arising from the re-design of services.

5.6 Environmental – NONE

Resources

5.7 Financial – The actions, measures and risk management described in this report will be delivered within existing approved budgets.

5.8 Legal – NONE

5.9 Human Resources - NONE

5.10 Assets And Property – NONE

6.0 Conclusions

6.1 The report demonstrates good progress against the priorities identified in the 2012/13 Development Services Directorate Plan.

For further information please contact:

Neil Grant, Director of Development Services

Tel: 01595 74 4968 Email: neil.r.j.grant@shetland.gov.uk

28 May 2013

List of Appendices

Appendix 1 – Development Services Directorate Plan 2012-13. Year end Performance Update.

Development Services Directorate Plan 2012-13, year-end Performance Update

Aim: We will promote the Community Plan ensuring it is bought into and that it drives service planning:

Development Services Objective	Action	Lead Responsibility	Timescales	Outcomes/Measures	Progress
The Council has a clear vision and sense of purpose which reflects local needs and we can demonstrate linked-up strategic planning and resourcing to deliver that vision	Promote Community Plan with partners, and work with partners to ensure buy in.	Director of Development Services and Executive Manager Community Planning & Development	March 2013	Delivery on first year targets in the SOA	The Single Outcome Agreement targets are captured in the Councils Action Plan for 2012/13 and cascaded into directorate and service plans. (Green)
The Council gives strong community leadership and delivers improvement with its partners and we engage effectively with communities in understanding their needs and in making decisions	Implement the new Shetland Partnership governance arrangements at all structural levels, including the Shetland Partnership Board, the Performance Group, Theme Groups, the Community Engagement Network and local community fora.	Executive Manager Community Planning & Development	July 2012	New governance arrangements fully implemented and understood by all partners	The Shetland Partnership Board and Performance Group have been established. Partnership Groups are also established. (Green)
Ensure Development Directorate policies are in line with	Review Development Directorate policies to ensure they are in	Director of Development Services and	March 2013	Policies reviewed and updated.	Economic Development Policies are currently being reviewed by an

delivering the Community Plan.	line with community plan.	Development Services Management Team			officer/members group. <i>(Amber)</i>
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DRAFT**Appendix 1**

Aim: We will demonstrate progress in key priority areas:

Development Services Objective	Action	Lead Responsibility	Timescales	Outcomes/Measures	Progress
Establish whether there is a clear case for proceeding with a prioritised programme for fixed links.	Develop further the programme of fixed links to refine the current priorities in to a programme with funding models agreed by Council.	Executive Manager Transport Planning	March 2013	Decision can be taken to proceed or otherwise on fixed links.	Funding options for fixed links are currently being evaluated. A report will be presented to Development Committee. (Amber)
Provide Planning and Economic Development policy on renewable energy.	Develop Local Development Plan (LDP) policy and Supplementary Guidance for Council approval and consultation.	Executive Manager Planning	March 2013	LDP policy and Supplementary Guidance agreed at local level.	LDP was presented for adoption at Development Committee on 10 th October. Supplementary Guidance on Renewable Energy to be presented at May 2013 Committee.
	Provide policy on renewable energy development, including infrastructure development, assistance schemes and advice.	Executive Manager Economic Development	October 2012	Approved policy in place	Renewable energy policy will be considered by the Economic Development Policy Review Team (Amber)
We will have an approved Community Benefit policy on renewable energy.	Liaise with Association of Community Councils, other community stakeholders, developers and other local authorities to develop policy framework.	Executive Manager Economic Development	October 2012	Approved Policy in place.	A Framework for a Community Benefit Policy was agreed at Development Committee on 5 th September. (Amber)
Draft Local Development Plan	Present draft plan to special Committee	Executive Manager Planning	October 2012	LDP submitted to Scottish Government	The Local Development Plan and Supplementary

DRAFT**Appendix 1**

(LDP) presented to Council	meeting in October. Arrange member's seminars. Provide update reports at each committee cycle.			by March 2013	Guidance notes were adopted at Development Committee & Council on 10 th October 2012, representations are now being analysed. (Amber)
Local Housing Strategy five key themes will continue to be delivered	Update quarterly on: <ul style="list-style-type: none"> • Future supply of housing • Homelessness • Housing Support • Fuel Poverty • Private sector 	Executive Manager Housing	Quarterly	Quarterly updates	National priority need housing target achieved ahead of target (Amber)
Digital (broadband) implementation plan agreed	Infrastructure and operational plans approved	Executive Manager Economic Development	Sept 2012	Implementation plan agreed. High speed broadband service available in South and Central Shetland mainland	South and Central Shetland broadband connections available. Fibre from Lerwick to Sellaness is complete. Shetland Telecom business model is being constructed. Review of Shetland Telecom project in progress (Green)
We will have an agreed Employability, Skills & Learning Strategic Plan	Work with community partners in the Employability, Skills & Learning Partnership to develop strategic direction.	Director of Development Services and Executive Manager of Community Planning & Development	March 2013	Strategy adopted	Skills, Learning and Employability Strategy & action plan currently being developed by partnership. (Amber)

Aim: We will constantly measure, and maintain or enhance internal and external customer satisfaction.

Development Services Objective	Action	Lead Responsibility	Timescales	Outcomes/Measures	Progress
Measure and maintain or enhance internal and external customer satisfaction	Review existing practice in relation to customer satisfaction surveys across the Directorate, including defining who the customers are.	Executive Manager Community Planning and Development	November 2012		Review currently being planned.
	Agree a Directorate format.	Director of Development Services and Development Services Management Team	January 2013		Customer satisfaction survey for planning service completed November 2012 <i>Delayed to 2013/14</i> <i>(Amber)</i>
	Establish an agreed system across the directorate.	Director of Development Services and Development Services Management Team	March 2013		

Aim: We will achieve a balanced budget.

Development Services Objective	Action	Lead Responsibility	Timescales	Outcomes/Measures	Progress
To deliver the agreed budget strategy within the timescales agreed by Council.	Achieve all budget savings identified for 2012/13 or provide options for alternative savings where planned savings cannot be met. Plan for savings in 2013/14 and future years.	Director of Development Services and Development Services Management Team	March 2013.	Balanced Budget.	All budget savings achieved and £2,021k of further under-spend achieved across Development Directorate. (Green)
Achieve Best Value service provision across the Development Directorate.	Plan and carry out service reviews, in each service area.	Director of Development Services and Development Services Management Team	March 2014	Reviews complete and actions implemented	Review of Planning Service, and Housing Asset Management Service complete and in implementation phase, Review of Community Planning & Development, and Tertiary Education now in progress. (Green)

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Appendix 1

Aim: We will 'live' the golden thread from national plans to individual performance reviews including strong performance management processes.

Development Services Objective	Action	Lead Responsibility	Timescales	Outcomes/Measures	Progress
A clear link will be apparent from national policy and community plan and SOA through Council Action Plan, Directorate and Service plans to individual performance objectives.	Develop and review plans which cascade objectives from Community plan to individual's performance objectives	Director of Development Services and Development Services Management Team	March 2013	Directorate plans, Services plans, and individual personal objectives are clearly linked.	Directorate and Service Plans complete and Employee Review and Development meetings being held to set individual performance objectives. (Green)

DRAFT**Appendix 1**

Aim: We will ensure Shetland's demographics are consistently used and shared to influence the work of our Directorate and the rest of the Council.

Development Services Objective	Action	Lead Responsibility	Timescales	Outcomes/Measures	Progress
To better understand Shetland's Demographics and their future impacts on our economy and community services.	Analyse census data when it is published later in 2012 and thereafter prepare a report on what it means for the Council	Executive Manager Economic Development	October 2013	Report Presented	Census data being analysed <i>(Amber)</i>
	New policies will be developed as necessary following the analysis report.	Director of Development Services and Development Services Management Team	October 2013	Policies identified	

Aim: We will demonstrate that we are an effective, cohesive team with a reputation for innovation.

Development Services Objective	Action	Lead Responsibility	Timescales	Outcomes/Measures	Progress
The Directorate Services will work more cohesively and be recognised for developing innovative solutions and plans.	We will hold a team building event by June 2012	Director of Development Services and Development Services Management Team	Review monthly	Directorate plan delivered effectively	Team building event still to be held.
	We will all commit to attend team departmental meetings		Review monthly		Ongoing, Development Management Team meets twice monthly.
	We will have regular quarterly team half day development events aimed at discussing specific directorate issues and 'Action Learning Set' type activity		Review quarterly		Quarterly development event to be arranged. (Amber)

Aim: We will make more effective connections with key external partners including Scottish Government and European Parliament.

Development Services Objective	Action	Lead Responsibility	Timescales	Outcomes/Measures	Progress
We will better use our MSP, MP, and MEPs; this will include seeking to secure formal meetings on behalf of the directorate on a 3-6 month basis.	We will be more proactive in getting Ministers to Shetland, and more formally plan how we use the time we have with Ministers	Director of Development Services and Development Services Management Team	March 2013	Visit plan	Meetings with Local MSP being held. (Green)
We will plan and agree in advance the Key issues we want to get across to high profile visitors.	Develop and update plan.	Director of Development Services and Development Services Management Team	July 2012	Visit plan	Meetings secured with Planning Minister, Education Minister Energy Minister Vattenfall Ocean Energy Convention of Highlands & Islands (Amber)
We will promote representation on relevant national and European committees and take opportunities to engage	Develop and update plan.	Director of Development Services and Development Services Management Team	March 2013	Increased % of European and external funding levered into projects.	Representation on some committees. (Amber)

**Development Committee****29 May 2013****Shetland Input-Output Study/Regional Accounts 2010-11**

Report No: DV018-F

**Report Presented by Business Development
Project Manager****Economic Development Service****1.0 Summary**

- 1.1 The purpose of this report is to provide the Committee with headline information on the results of the Shetland Input-Output Study 2010-11.

2.0 Decision Required

- 2.1 This report is presented for information only and requires no decision from the Committee. The report is presented as the information contained therein is of crucial importance to continuing discussions on the local economy and public expenditure, and therefore examination and discussion by the Development Committee is both appropriate and necessary.

3.0 Detail

- 3.1 In March 2011, the Council's Economic Development Service commissioned the Hutton Institute (then Macaulay Scientific Consulting Ltd.) to undertake the Shetland Input-Output Study 2011. The purpose of this study was to provide the Council with detailed information on the value of the local economy, and was to follow on from a similar study carried out in 2003.

- 3.2 The Input-Output Study utilises business and household surveys, plus detailed information from Shetland Islands Council and government sources, to provide the Council with key information on the value of the Shetland economy, including total output, value added, values of local economic sectors and trends in household expenditure. The report also provides details on economic multipliers (showing the effect of increased demand on key sectors), the trade balance (showing the difference in value between imports to and exports from Shetland) and the Exchequer Balance (showing the difference between government revenue and expenditure in Shetland), and includes specific scenarios which calculate the estimated effects of economic changes to certain sectors of the economy as a whole.
- 3.3 The following paragraphs present the headline figures from the report – total output and value added, the Shetland trade balance and the Shetland Exchequer Balance. The report ‘An Analysis of the Shetland Economy – Based on Regional Accounts for 2010-11’ is attached as Appendix I.

Total Output and Value Added

- 3.4 The report estimates that, in 2010/11, the total output of the Shetland economy was £1,091.4m. The same figure in 2003 was estimated as £860.5m (at 2010/11 prices, equal to £705.7m at 2003 prices). This is equal to a 27% cumulative increase in output between 2003 and 2011, or a 3.5% annual growth rate.
- 3.5 Value added is calculated as the sum of wages and gross profits through the production and sale of goods and services, and this is summed across all sectors to calculate Gross Regional Domestic Product (GRDP). The report calculates that GRDP in 2010/11 was £485m compared to £406.5m in 2003 (at 2011 prices, equal to £333.3m at 2003 prices). This is equal to an annual growth rate of 2.6% and a cumulative increase of 19% between 2003 and 2011.
- 3.6 The most significant sectors in terms of output are Aquaculture (£156m or 14.3% of total output), Fish Processing (£83m or 7.6%), Construction (£78m or 7.1%) and Fish Catching (£71m or 6.5%). Combined fisheries output (catching, processing and aquaculture) accounts for £317 million, or 29% of total economic output.
- 3.7 Public expenditure in 2010-11 can broadly be calculated by combining the output of the following sectors – Public Administration (£62.8m), Schools (£38.3m), Colleges (£6.1m), Health (£56.3m) and Social Work (£28.3m). Public output of £55.9m can also be found across other sectors. The cumulative output of these sectors is £247.7m, equal to 22.7% of total economic output in Shetland. Of the above output, £153.2m is attributable to local government output. By comparison, public output in 2003 was measured at £187.7m (£151.9m at 2003 prices), equal to 21.5% of economic output in that year.

Trade Balance

- 3.8 The estimated value of exports from Shetland in 2010/11 was £496 million. Of this, £166 million in exports was made to the rest of Scotland, £118 million to the rest of the UK and £212 million outside the UK. Of the above exports, combined fisheries operations account for £286 million, or 58% of all exports.
- 3.9 The estimated value of imports into Shetland in 2010/11 was £365 million, made up of £260 million in imports from the rest of Scotland, £63 million from the rest of the UK and £42 million from the rest of the world. Aquaculture and fish processing together account for 41% of all industrial imports, equal to £151 million.
- 3.10 An export value of £496 million against an import value of £365 million is equal to a positive trade balance of £131 million.

Exchequer Balance

- 3.11 The Exchequer Balance is the difference between total government revenue raised in Shetland against total government expenditure. The report calculates that, in 2010/11, Shetland generated a positive Exchequer Balance of £82 million. This compares to a positive Exchequer Balance of £77 million (£63 million at 2003 prices) from the 2003 report.

4.0 Implications

Strategic

- 4.1 Delivery On Corporate Priorities – While the release of the report carries no direct implications for Corporate Priorities, and this report does not make any recommendation for action, information from the results could be used to inform and direct policy development within the Council.
- 4.2 Community /Stakeholder Issues – As above, there are no direct implications from the release of the report. However, the results of the Input-Output Study could be used to inform discussion with community and local stakeholders during consultation processes.
- 4.3 Policy And/Or Delegated Authority – None.
- 4.4 Risk Management – Proper interpretation of results from the Input-Output Study is key to understanding the significance of certain aspects of the study. There is a risk that out-of-context reporting of figures from the study could lead to misinterpretation and confusion. Any figures from the study which enter the public domain should be presented in the proper context.
- 4.5 Equalities, Health And Human Rights – None.
- 4.6 Environmental – None.

Resources

- 4.7 Financial – There are no direct financial implications arising from this report.
- 4.8 Legal – None.
- 4.9 Human Resources – None.
- 4.10 Assets And Property – None.

5.0 Conclusions

- 5.1 The above figures demonstrate that the Shetland economy has experienced strong growth in the period since the last Input-Output Study in 2003, in the face of challenging national and international economic conditions. This growth can be traced to expansion in both the private and public sectors.
- 5.2 Fisheries activity continues to be the most significant contributor to economic output in Shetland, and exports from this are a key factor in Shetland's net positive balance of trade.
- 5.3 The relatively strong performance of the local economy provides benefits to the national economy through generating a positive exchequer balance, as seen above.

For further information please contact:

Thomas Coutts, Business Development Project Manager

01595 744 902

thomas.coutts@sic.shetland.gov.uk

16 May 2013

List of Appendices

Appendix I - "An Analysis of the Shetland Economy – Based on Regional Accounts for 2010-11", plus report appendices

END

An Analysis of the Shetland Economy

Based on Regional Accounts for 2010-11

George A Dyer
El Colegio de Mexico

with

Deb Roberts
The James Hutton Institute and University of Aberdeen

and

Andrew Blackadder
AB Associates

(Version 2.0)

1 Economic activity in Shetland

In the United Kingdom, as around the world, there is an on-going discussion on the role that government could or should play in the economy. This is true in Shetland, where having participated increasingly in the region's economy in the recent past the Shetland Island Council now faces significant budget restrictions. The starting point of this discussion should be a clear definition of terms. Aggregate economic activity can be measured in terms of **output** or **value added**. In this report, **total output** refers to the value of all sales (at producer prices) net of changes in inventories summed across all economic sectors during fiscal year 2010-11. **Gross regional domestic product (GRDP)** is the sum of value added, i.e., wages and gross profits, through the production and sale of goods and services in Shetland. An alternative way of defining GRDP (at factor cost) is as the value of total output net of production, transport and sales costs and taxes. As GRDP reflects simultaneously levels of economic activity and income, it is presumably of most interest to authorities and the general public in Shetland. At the same time, value added necessarily derives from output sales, which are the basis of taxes, a main source of government revenue. In the remainder of this section we discuss both total output and GRDP briefly as a prelude to a more in-depth discussion in later sections of this report.

We estimate that, in 2010-11, total output in Shetland was £1,091 million, while GRDP was £485 million: £317 million in employment income and £168 in gross profits. In 2003, total output was estimated at £860.5 million at 2010-11 prices (or £706 million at 2003 prices).^{1,2} This implies a rate of growth of 3.5% per year in real terms, which represents a cumulative increase of 27% between 2003 and 2010-11.³ Similarly, value added in 2003 was estimated at £407 million at 2010-11 prices (or £333 million at 2003 prices), implying 2.6% annual growth or a 19% increase between 2003 and 2010-11.⁴

¹ Data for 2003 is from Newlands and Roberts (2006) *Shetland Regional Accounts* 2003.

² 2003 prices are those observed at the time, while 2010-11 prices have been adjusted using GDP deflators: http://hm-treasury.gov.uk/data_gdp_index.htm.

³ A cumulative increase is the result of compounding annual growth rates over the relevant period.

⁴ See Appendix 1 for a comparison of economic growth in Shetland and neighbouring localities.

A third measure of regional economic activity is **employment**, customarily reported in terms of **full-time equivalents** (FTEs). We estimate that local businesses and organizations operating in Shetland employed 10,490 FTEs during 2010-11, which implies a growth rate of 2.0% per year since 2003 or a 15% increase between 2003 and 2010-11.⁵

Finally, we estimate that Shetland businesses, organizations and households paid £139 million in **direct** and **indirect taxes** in 2010-11. This implies a 26% increase since 2003 and an annual growth rate of 3.4%.

In sum, between 2003 and 2010-11 total output, GRDP and employment in Shetland grew at rates of 3.5, 2.6 and 2.0% per year, respectively, while taxes increased by 3.4% per year. The significance of these rates is made clear when the implications of various ratios between the relevant variables are kept in mind. For instance, the ratio of GRDP to output is an indication of the economy's ability to generate value added. This ratio decreased (in percentage terms) from 47% in 2003 to 44% in 2010-11. Although value added consists of both wages and profits, it is clear that the profitability of Shetland businesses as a whole did not decrease during this period. In fact, the ratio of profits to output increased from 11 to 15%. The implication is that GRDP's relatively low rate of growth is associated with the evolution of wage income: the ratio of wages to output decreased from 37 to 29%. On the other hand, the ratio of employment to output (also known as the **employment coefficient**) is a measure of the labour intensity of the Shetland economy, or alternatively, an inverse measure of the productivity of local labour. That is, the employment coefficient reflects the size of the labour force required to produce a unit of output. This ratio decreased from 11 (FTEs/£ million) in 2003 to 9.6 in 2010-11, which suggests that the labour force was 10% more productive in 2010-11 than in 2003.⁶ This may explain why output grew at a much faster rate than employment, but it leaves unexplained the evolution of wage rates.

⁵ This estimate is based on the *Shetland Employers Survey 2011* supplemented with own data.

⁶ Both figures are estimated at 2010-11 prices.

We identify the source of these changes in subsequent sections devoted to sectoral analyses, employment and the exchequer balance for Shetland. We return to the question of the Council's role in Shetland's economy in a later section and assess the economy's response to various potential market shocks (or stimulus) in the last section of this report. The data base, SAM and I-O tables are presented as appendices at the end of this report.

2 Sectoral Analysis

We classified economic activity into 31 sectors following previous regional accounts for Shetland.⁷ As can be seen in Table 2.1, any question on which sector contributes the most to the Shetland economy clearly depends on the criterion used. For instance, *aquaculture*, the largest sector in terms of output is not among the largest employers. On the other hand, the *public administration* and *construction* head the list on employment and wages, respectively, but are not among those sectors generating the most value added.

Table 2.1 The top five economic sectors in Shetland according to various criteria¹

Total Output	Value Added	Wages	Profits	Employment
Aquaculture	Aquaculture	Construction	Aquaculture	Public Admin
Fish Processing	Construction	Schools	Other Services	Retail
Construction	Land Transport	Health	Land Transport	Construction
Fish Catching	Fish Catching	Public Admin	Fish catching	Health
Public Admin	Other Services	Social Work	Retail	Other Services

¹ Shown in descending order.

The importance of employment is self-evident, and as we have said, value added is the basis of income and thus, arguably, of most interest to public policy. However, output also is highly relevant as the source of taxes.⁸ Assessed in terms of output, the structure of the Shetland economy appears relatively stable: four of the five top contributors to the region's output are the same as in 2003, while three are common with 1996-97.⁹ But there have also been important changes. *Construction* and the Sullom Voe *oil terminal* have declined in relative terms since 1996, while *aquaculture* and to a lesser degree *fish processing* have taken their place (Fig. 2.1).¹⁰

⁷ See Newland and Roberts, op cit.

⁸ See the section on Trade and Exchequer balance for a discussion of taxes.

⁹ Newland and Roberts, op cit.

¹⁰ The Sullom Voe terminal did not respond to enquiries for information. Oil terminal data is estimated provisionally based on employment estimates for the industry.

Output is not only a measure of economic activity but also a driver of economic growth by itself. That is, the expansion of output within every sector in Shetland is an intrinsic source of growth elsewhere in the economy.¹¹ In this sense, *aquaculture* is potentially a most important sector, as it contributed directly 21% of net output growth between 2003 and 2010-11. In contrast, the decline of the *oil terminal* directly curtailed Shetland's net output growth by 10%, while the *construction* sector contributed 2% of growth despite the loss of its preeminent place in the region's economy.

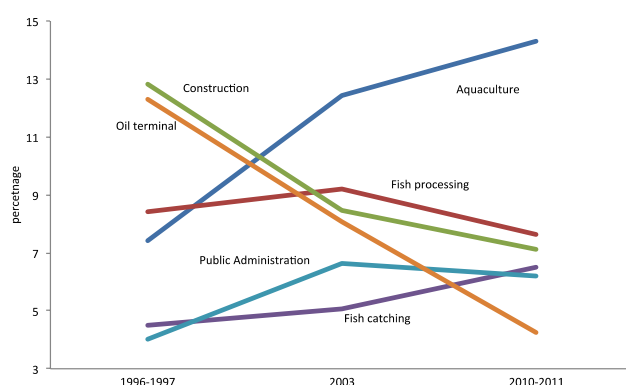


Figure 2.1 Relative contributions of largest sectors to value of output since 1996-97

Notwithstanding the current prominence of *aquaculture*, the **industry concentration ratio** for Shetland's five largest sectors has decreased slightly in recent years, from 49 and 50 in 1996-97 and 2003, respectively, to 46 in 2010-11. That is, Shetland's economy has become more diversified as smaller sectors partly fill the space left by *construction* and the *oil terminal*. Sectoral outputs and their relative contributions to Shetland's total output are reported in full detail in table 2.2 at the end of this section, while sectoral growth rates since 2003 are shown in figure 2.2.¹²

The highest rates of growth are observed in *electricity, gas & water* (26%), *other food and drink processing* (26%), *oil supply services* (24%) and *other manufacturing* (20%). Negative growth rates are observed in *technical and professional services* (-9.6%), *communications* (-6.6%), *oil terminal* (-5.6%) and *financial services* (-3.1%). While some of these rates are impressive, it is difficult to separate actual changes from the

¹¹ See the section on Multiplier Analysis for more on this topic.

¹² Sectoral data for 2003 and growth rates are reported in Appendix 2.

effect of reclassifying a number of businesses across sectors and of improvements in the accuracy of estimates since 2003. Reclassification explains for instance the decline of *technical and professional services* and simultaneous expansion of *real state services*. It may have also contributed to the change in the *fish processing* and *wholesale* sectors.

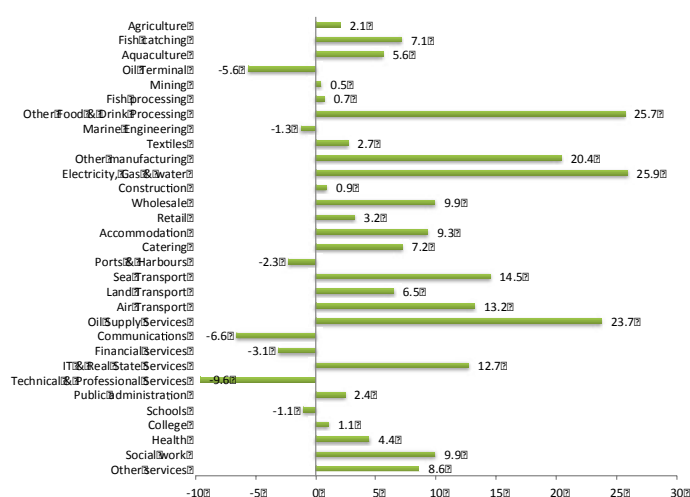
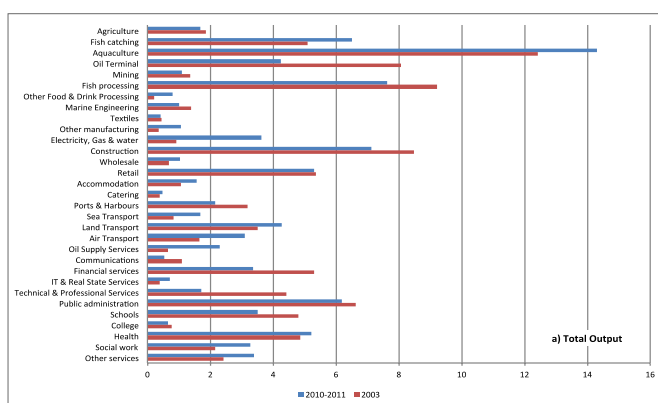


Figure 2.2 Annual output growth rates (per cent) by sector, 2003 to 2010-11

Despite large changes in growth rates, sectors' shares of the region's total output have remained relatively stable (Fig. 2.3a). The most important increases in relative contributions are in *electricity, gas and water* (2.7 percentage points), *aquaculture* (1.9), *oil supply services* (1.6), and *fish catching* (1.4); while the largest declines are the *oil terminal* (-3.8), *technical and professional services* (-2.7), *financial services* (-2.0), *fish processing* (-1.6) and *construction* (-1.3).



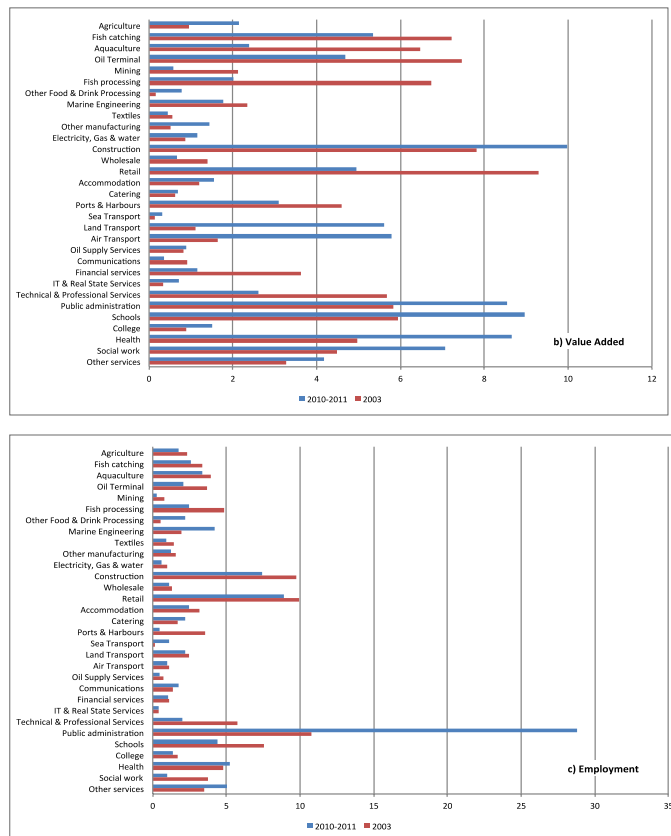


Fig. 2.3 Sectoral contributions (per cent) to output, GRDP and employment, 2003 to 2010-11.

Sectoral contributions to value added tell a different story (Fig. 2.4). *Aquaculture* remains the largest sector, yet it contributes relatively less to GRDP than output. By contrast, although not exceedingly large in terms of output, *land transport* and *other personal services* generate a considerable share (13%) of Shetland's GRDP. Also important in terms of value added are *construction* and *fish catching*. It is worth noting nevertheless that these sectors do not contribute equally to wages and profits. *Aquaculture*, *other personal services*, *land transport* and *fish catching* generate an overwhelming share of profits in Shetland (53%), while it is *construction*, *schools*, *health*, the *public administration* and *social work* that contribute most to wages (43% in aggregate) (Table 2.1).

Sectoral shares of GRDP are more clearly volatile than output shares (Fig. 2.3b). Large increases in relative contributions are observed in *land transport* (4.5 percentage points), *air transport* (4.1), *health* (3.7), *schools* (3.0), *public administration* (2.7), *social work* (2.6) and *construction* (2.2). Equally notable declines occurred in *fish processing* (-4.7), *retail* (-4.4), *aquaculture* (-4.1), *technical and professional services* (-3.0), *oil*

terminal (-2.8), *financial services* (-2.5) and *fish catching* (-1.9). These changes should be attributed to fluctuations in the rate of profitability across sectors, in their intensity of labour and in the type of remuneration offered to employees. However, there are exceptions. The large increase in agricultural value added, for instance, is a result of public policy. As the *single farm payment* scheme substituted output subsidies, government transfers to farmers became rents to landowners and thus part of value added.¹³

Finally, in terms of employment, most striking is the large increase in the *public administration's* relative contribution (18 points) (Fig. 2.3c). Excluding this sector, the largest increases in employment shares are observed in *marine engineering* (2.2), *food and drink processing* (1.7), and *other personal services* (1.5). On the other side, the largest declines in employment are in *technical and professional services* (-3.7), *schools* (-3.2), *ports and harbours* (-3.1) and *social work* (-2.8). We address employment in greater detail in the next section.

¹³ Changes in methodology might account for the decrease in *retail's* contribution to GRDP.

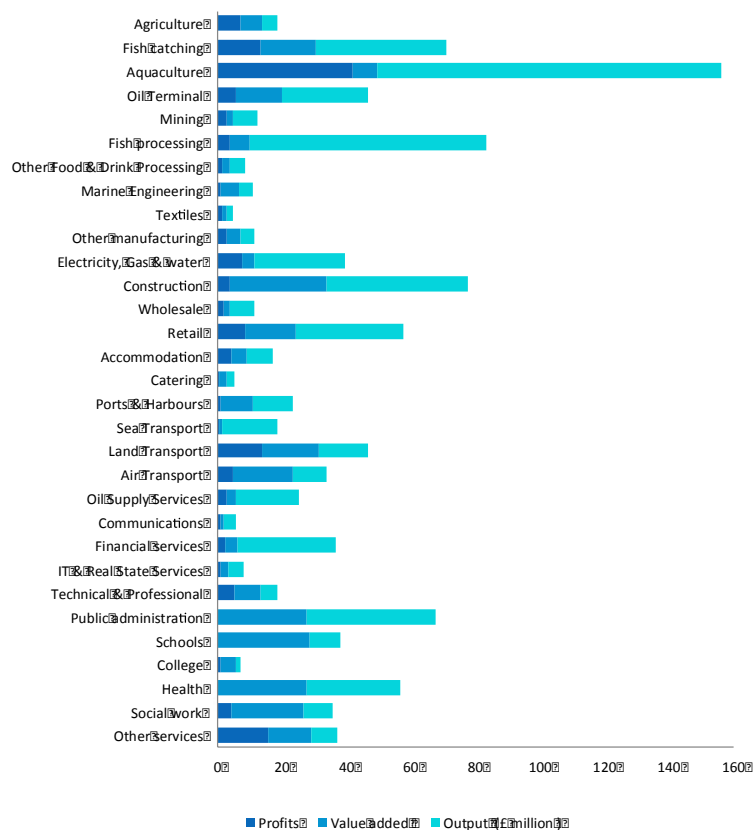


Figure 2.4 Output, value added and profits by sector, 2010-11. *The figure shows the three bars for each sector overlapping, since value added is a part of output, and profits a part of value added. The length between value added and profits represents wages.*

Table 2.2 Sectoral output, valued added and employment, 2010-2011

Sector	Total Output (£ million)	%	Value Added (£ million)	%	Employment (FTEs)	%
Agriculture	18.450	1.7	6.929	2.2	185	1.8
Fish Catching	70.900	6.5	17.222	5.4	269	2.6
Aquaculture	156.266	14.3	7.676	2.4	350	3.3
Oil Terminal	46.427	4.3	15.090	4.7	219	2.1
Mining	12.115	1.1	1.846	0.6	31	0.3
Fish Processing	83.267	7.6	6.482	2.0	260	2.5
Other Food & Drink Processing	8.752	0.8	2.486	0.8	234	2.2
Marine Engineering	11.053	1.0	5.688	1.8	441	4.2
Textiles	4.678	0.4	1.407	0.4	98	0.9
Other Manufacturing	11.592	1.1	4.643	1.4	128	1.2
Electricity, Gas & water	39.592	3.6	3.688	1.1	65	0.6
Construction	77.714	7.1	32.087	10.0	777	7.4
Wholesale	11.427	1.0	2.171	0.7	119	1.1
Retail	57.813	5.3	15.892	4.9	930	8.9
Accommodation	17.052	1.6	4.989	1.6	259	2.5
Catering	5.337	0.5	2.229	0.7	231	2.2
Ports & Harbours	23.431	2.1	9.945	3.1	46	0.4
Sea Transport	18.403	1.7	1.020	0.3	118	1.1
Land Transport	46.743	4.3	18.070	5.6	231	2.2
Air Transport	33.730	3.1	18.597	5.8	100	1.0
Oil Supply Services	25.000	2.3	2.831	0.9	49	0.5
Communications	5.781	0.5	1.158	0.4	183	1.7
Financial Services	36.548	3.3	3.716	1.2	108	1.0
IT & Real State Services	7.881	0.7	2.277	0.7	44	0.4
Technical & Prof Services	18.748	1.7	8.425	2.6	211	2.0
Public Administration	67.616	6.2	27.452	8.5	3,021	28.8
Schools	38.300	3.5	28.811	9.0	459	4.4
College	7.179	0.7	4.817	1.5	145	1.4
Health	56.782	5.2	27.848	8.7	548	5.2
Social Work	35.857	3.3	22.733	7.1	101	1.0
Other Personal Services	36.985	3.4	13.432	4.2	531	5.1
Shetland Totals	1,091.421	100	321.656	100	10,490	100

3 Employment

Over two thirds of the labour force in Shetland is employed in services sectors; manufacturing jobs represent an additional 19% and primary sectors the remaining 10%. In 2003, manufacturing and the primary sectors offered relatively more jobs than at present (Fig. 3.2). Service sectors now constitute the main employer of every occupational category (according to the *Standard Occupational Classification 2000*) except *skilled trades* and *process plant and machine operatives*, for which manufacturing provides more jobs.

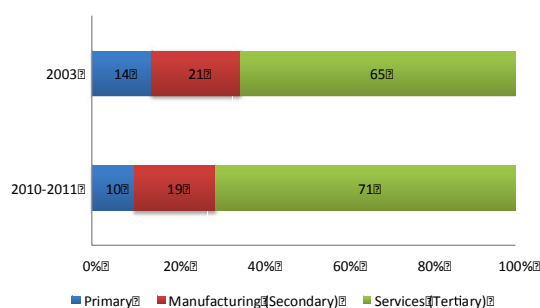


Fig. 3.2 Employment in primary, manufacturing and services sectors in Shetland

Skilled trades is the largest occupational group in Shetland (1,841 FTEs). Also important are *sales and customer services* (1,296) and *professionals* (1,214), which replaced *elementary occupations* and *process, plant and machine operatives* as the second and third largest since 2003 (Fig. 3.3). Significant representation of all nine occupational groups nevertheless remains a hallmark of the region's economy. Employment across occupational categories by sector is presented in full detail in table 3.1.

As in 2003, Shetland maintains a relatively balanced occupational distribution across sectors. There are seven sectors that employ people in all occupational groups: *air transport*, *IT and real state*, *public administration*, *colleges*, *health*, *social work*, and *other personal services*. Significant changes in employment nevertheless have taken place since 2003. The *public administration* has replaced *retailing* as the largest employer of *managers and senior officials* except for *agriculture*, where every farmer

or crofter was considered a manager. The *public administration* also continues to be the largest employer of *associate professional and technical occupations* and *administrative and secretarial occupations*; and it has also become the main employer of *professionals, personal services, and elementary occupations*, replacing the *technical and professional services, accommodation and fish processing* sectors, respectively. Also, *retail* continues to employ the most *sales and customer representatives* in Shetland; and although *construction* continues to be the main employer of *skilled trades, fish processing* now employs more *process, plant and machine operatives*.



Fig. 3.3 Employment by occupational category, 2003 to 2010-11.

Employment coefficients represent the amount of labour required to produce a unit of output—a measure of the intensity of labour or an inverse measure of its productivity. We calculated these statistics for every sector in Shetland.¹⁴ The highest coefficients across the economy are for three services sectors: the *public administration* (44.7 FTEs/£ million), *catering* (43.3) and *marine engineering* (39.9). On the other hand, those with the lowest coefficients are capital-intensive sectors: *electricity, gas and water* (1.6 FTEs/£ million), *oil supply services* (2.0) and *ports and harbours* (2.0) (Fig. 3.1). As noted in the introduction, employment coefficients have decreased slightly in average since 2003. In 2003, for instance, the highest coefficients were above 45 FTEs/£ million (47.6 for *catering* and 45.5 for *other manufacturing*), while the lowest were above 2.0 FTEs/£ million (*sea transport*, 2.1, and *finance*, 2.4). More generally, 26 sectors exhibit higher labour productivities in

¹⁴ Employment coefficients are reported in full detail in Appendix 3.

2010-11 than in 2003, while the intensity of labour rose in the remaining five (Fig. 3.1). Employment coefficients decreased most in *other manufacturing, accommodation, social work and textiles*; the largest increases are for the *public administration, marine engineering and communications*.

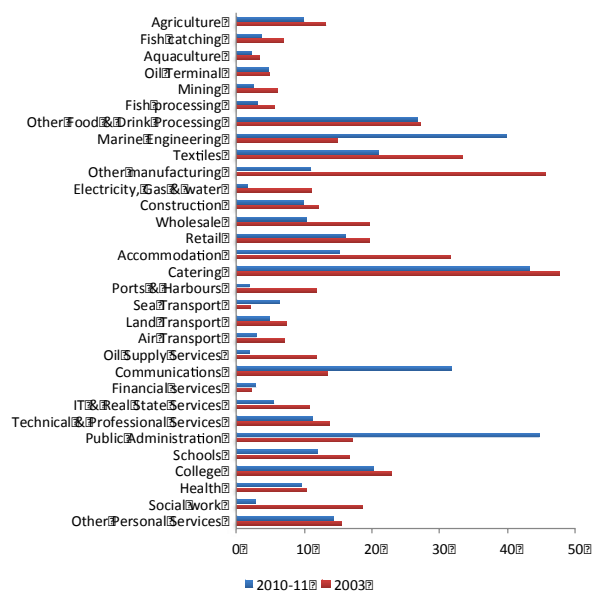


Figure 3.1 Employment coefficients by sector, 2003 to 2010-11

Table 3.1 Employment matrix for Shetland, 2010-11

	Sector	Managers, Directors and Senior Officials	Professionals	Associate Professionals Technical	Administrative Secretarial	Skilled Trades	Caring, Leisure Other Services	Sales Customer Services	Process Plant Machine Operatives	Elementary Occupations	Totals
1	Agriculture	166	0	0	2	7	0	0	10	0	185
2	Fishing	88	0	43	0	22	0	0	116	0	269
3	Aquaculture	84	11	4	5	205	0	0	14	27	350
4	Oil Terminal	5	27	42	5	43	0	2	95	0	219
5	Mining	0	0	0	6	0	0	0	25	0	31
6	Fish Processing	13	5	21	4	10	0	4	202	1	260
7	Other Food & Drink Processing	17	0	17	33	59	0	25	84	0	234
8	Marine Engineering	20	3	12	18	387	0	0	0	0	441
9	Textiles	7	0	0	5	34	0	0	52	0	98
10	Other Manufacturing	13	0	1	8	67	0	8	8	21	128
11	Electricity, Gas & Water	7	1	4	5	18	0	0	30	0	65
12	Construction	67	18	9	24	480	0	22	22	135	777
13	Wholesale	17	7	8	13	5	0	45	23	0	119
14	Retail	117	0	0	59	40	0	713	2	0	930
15	Accommodation	46	0	0	15	0	0	198	0	0	259
16	Catering	9	0	17	11	34	0	43	11	106	231
17	Ports & Harbours	4	3	3	6	13	0	0	17	0	46
18	Sea Transport	22	0	15	37	0	0	44	0	0	118
19	Land Transport	22	0	33	19	114	0	0	42	0	231
20	Air Transport	3	30	9	7	12	12	16	5	6	100
21	Oil Supply Services	2	0	1	6	28	0	0	4	8	49
22	Communications	92	0	92	0	0	0	0	0	0	183
23	Financial Services	14	26	0	45	0	0	23	0	0	108
24	IT & Real Estate Services	9	2	10	10	4	1	6	0	3	44
25	Technical & Professional Services	47	70	45	49	0	0	0	0	0	211
26	Public Administration	119	541	574	458	135	660	36	167	331	3,021
27	Schools	0	301	21	0	50	0	0	0	88	459
28	College	16	77	17	20	7	5	0	0	3	145
29	Health	35	46	34	75	0	229	0	0	129	548
30	Social Work	13	0	0	4	0	84	0	0	0	101
31	Other Personal Services	50	46	56	56	67	104	111	35	7	531
	Total	1,122	1,214	1,088	1,007	1,841	1,094	1,296	965	864	10,490

4 Multiplier Analysis

Output. The discussion has focused so far on growth within specific sectors, but as we said in section 2, a sector's expansion can generate growth elsewhere in the economy. This process is the subject of multiplier analysis. We estimated two types of output multipliers for the Shetland economy: **input-output multipliers** (also known as type I or open multipliers) and **SAM multipliers**. Both types can provide a precise measure of the total or cumulative effect of actual or potential changes in a given sector on the rest of Shetland's economy under certain conditions.¹⁵ They can thus be used to assess the economy's potential response to an external stimulus, such as public policy or market shocks.¹⁶

Input-output multipliers measure the expected change in total output after an increase in final demand for the relevant sector's output. Such change consists of the sum of the stimulus' direct effect on that sector and its indirect effects on other sectors through production interdependencies. The largest type I multiplier in Shetland in 2010-11 was 1.573 for the *communications* sector. This means that a £1000 increase in demand for communication services would stimulate economic activity in various sectors through the purchase of inputs (also known as intermediate demand), and generate an additional £573 in sales spread across the Shetland economy. Alternatively, a £1000 decrease in demand would translate into £1573 in losses across Shetland: £1000 directly in *communications* and the rest spread across the economy.

Other sectors with significant type I multipliers are *wholesale* (1.531), *electricity, gas and water* (1.439), the *oil terminal* (1.439) and *sea transport* (1.401) (Table 4.1). A low input-output multiplier, such as the *financial services'* (1.001), suggests that the sector demands relatively few local inputs. This can occur either because it demands few inputs in general or because it imports most inputs into Shetland. When few inputs are required, we should expect a relatively large share of the sector's outlays to be in

¹⁵ These conditions are that technology and prices remain unchanged after the stimulus; that production capacity is not limited by the availability of labour or capital (also known as supply-side constraints), and that household consumption patterns remain unchanged.

¹⁶ See the section on simulation of Scenarios.

the form of wages, profits or taxes, which can have additional repercussions (positive or negative) on the economy (see below). But this is not necessarily the case when most imports are imported, in which case a large part of the stimulus leaks out of the economy without having significant indirect effects.

Table 4.1 Input-Output and SAM multipliers for Shetland, 2010-11

	Sector	I-O	Rank	SAM	Rank
1	Agriculture	1.235	11	1.383	10
2	Fish Catching	1.245	10	1.341	15
3	Aquaculture	1.018	30	1.059	30
4	Oil Terminal	1.439	4	1.562	3
5	Mining	1.165	23	1.238	23
6	Fish Processing	1.217	15	1.255	22
7	Other Food & Drink Processing	1.299	8	1.408	9
8	Marine Engineering	1.100	26	1.235	24
9	Textiles	1.215	16	1.329	18
10	Other manufacturing	1.092	28	1.214	28
11	Electricity, Gas & water	1.439	3	1.519	5
12	Construction	1.257	9	1.367	12
13	Wholesale	1.531	2	1.644	2
14	Retail	1.139	24	1.226	26
15	Accommodation	1.231	12	1.342	14
16	Catering	1.398	6	1.538	4
17	Ports & Harbours	1.337	7	1.472	6
18	Sea Transport	1.401	5	1.456	7
19	Land Transport	1.166	22	1.295	20
20	Air Transport	1.183	19	1.332	17
21	Oil Supply Services	1.177	21	1.231	25
22	Communications	1.573	1	1.687	1
23	Financial Services	1.001	31	1.030	31
24	IT & Real State Services	1.214	17	1.309	19
25	Technical & Professional Services	1.065	29	1.201	29
26	Public Administration	1.222	14	1.337	16
27	Schools	1.188	18	1.372	11
28	College	1.177	20	1.352	13
29	Health	1.099	27	1.219	27
30	Social Work	1.229	13	1.409	8
31	Other Personal Services	1.129	25	1.265	21

In general, multiplier analysis assumes that prices and technologies do not change in response to the stimulus, which implies that multipliers remain fixed. The assumption of fixed prices is obviously limiting, as is well known to Shetland's aquacultural

industry.¹⁷ However, technology (and hence multipliers) also can change substantially over time due to the spread of innovation or the restructuring of interdependencies within the economy. In Shetland, the latter has been the case with the expansion of the oil industry and connected sectors.¹⁸

More generally, the list of sectors with the largest multipliers in Shetland has changed substantially since 1996 (Table 4.2). Agriculture headed this list until 2003, but it is no longer part of it in 2010-11. This too can be attributed to the reform of agricultural policy: output subsidies are linked tightly to input use, and thus to the rest of the economy; but *single farm payment* is not, as it is decoupled from production. At the same time, it constitutes a significant share of the sector's income.

Table 4.2 Sectors with largest type I multipliers in Shetland, 1996-97 to 2010-11

	2010-11	2003	1996-97
1	Communications	Agriculture	Agriculture
2	Wholesale	Fish Processing	Fish Processing
3	Electricity, Gas & water	Other Food & Drink Processing	Communications
4	Oil Terminal	Communications	Other Manufacturing
5	Sea Transport	College Education	Oil Terminal

Input-output multipliers also assume that economic activity and household consumption (or final consumption) are mutually independent. This could be more the case in peri-urban areas in the UK than in Shetland. Due to the region's geographic location, the local economic activity is per force the main source of local household income. In Shetland output growth translates into extra wages and profits for local households, and increased spending, which means a larger demand for local goods and services. Induced effects of this sort (i.e., the multiplier effects of household spending) are not considered in type I input-output multipliers, but they are included in SAM multipliers. In fact, both types of multipliers differ only in that the latter take into account the additional feedbacks that occur as earned income associated with a stimulus is spent.

¹⁷ See the analysis in the section on Scenarios.

¹⁸ For a recent analysis of this process see Roberts and Newland (2010) *The economic integration of new sectors in rural areas: a case study of the Shetland economy*.

As we should expect, estimated SAM multipliers for 2010-11 are greater than type I multipliers, as they reflect increases in input (or intermediate) demand for local goods and services as well as in consumer (or final) demand as income gains are spent (Fig. 4.1). As the figure shows, consumer-induced effects do not affect sectoral rankings radically, but differences between the two types of multipliers can be considerable nevertheless. The indirect effects of a stimulus are 13 to 329% greater after consumer feedback is taken into account, depending on the sector (Table 4.1). Cases worth noting include educational sectors, namely *schools* and *colleges*, which improve 7 points in the overall ranking, while *social work* improves 5 points and *other personal services* 4 points. These are relatively labour-intensive sectors¹⁹ that require few material inputs, and hence their contribution to economic growth is mostly through employees' income gains. A similar argument could be made for *financial services*, but given this sector's scant demand for local inputs, its SAM multiplier remains critically small.

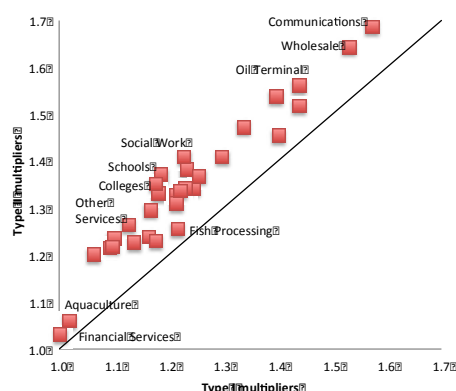


Figure 4.1 Input-output and SAM multipliers by sector in Shetland, 2010-11

At the opposite extreme is the *fish processing* sector, whose rank decreases by 7 points due to its intensive use of material inputs. Its SAM multiplier (1.255) nevertheless remains considerable. Overall, the sectors with the largest SAM multipliers are *communications* (1.687) and *wholesale* (1.644), while those with the smallest are *financial services* (1.030) and *aquaculture* (1.059).

¹⁹ See Appendix 3.

Multiplier analysis shows thus that *aquaculture's* contribution to economic growth in Shetland remains largely limited to its own expansion. The reason is that its effects on local consumption, both intermediate and final, are small. *Aquaculture* demands few local goods and services, while an overwhelming share of its inputs is imported from mainland Scotland.²⁰ It also continues to have one of the smallest employment coefficients in Shetland (Appendix 3), which means that induced effects via employee income also are limited. Therefore, although the sector accounts directly for 20% of regional growth since 2003, its expansion has not been a significant driver of growth elsewhere in the economy. This may change if local businesses gradually become better positioned to supply the inputs required by this sector, as it happened thirty years ago with the oil industry, but there is little if any evidence that any restructuring occurred during the last decade.

Employment. If the expansion of a particular sector can induce growth across Shetland, as discussed in the preceding sub-section, it must follow that it can also affect employment elsewhere in the economy. The employment generated across the economy as a result of a unit increase in output from a particular sector is known as its **employment effects**. That is, employment effects measure the multiplier effect discussed above in terms of employment gains and losses. Arguably, then, employment effects are the most useful statistic from a social policy perspective—that is, they are the decisive measure of a stimulus' knock-on benefits for Shetland residents.

Since employment effects consist of direct and indirect changes in employment associated with a particular stimulus, their value should exceed that of the employment coefficients, which reflect only the former; employment is generated directly in the expanding sector and indirectly across the economy. There are two types of employment effects that correspond to the two types of multipliers discussed above. Employment effects derived from input-output multipliers measure inter-industry feedbacks alone; those associated with SAM multipliers also include effects

²⁰ See section 6 for a discussion on trade patterns.

induced through consumer demand. In what follows we refer exclusively to the latter (as we consider SAM multipliers more useful than input-output multipliers), but both types are reported in full detail in Appendix 3.

Across sectors, employment effects are 7 to 275% larger than employment coefficients (Fig. 4.2). At one extreme, *marine engineering* has an employment coefficient and employment effects of 39.9 and 42.5 (FTEs/£ million), respectively. That is, a stimulus that increases the sector's output by £1 million requires 39.9 full-time employees in marine engineering. It also raises *marine engineering's* use of material inputs, and supplying these goods and services in turn requires an additional 2.6 FTEs distributed across other businesses and organizations in Shetland. At the opposite end is *ports and harbours* with employment coefficient and employment effects of 2.0 and 7.4 (FTEs/£ million), respectively. A £1 million increase in *ports and harbours'* output requires only 2.0 FTEs within the sector but 5.4 FTEs are generated across other economic activities. Induced employment is thus largest for this sector, but its employment effects remain small nevertheless.

Clearly the most important issue is not whether jobs are created directly or indirectly, but how many jobs are created in total. Although significant at the level of the entire economy, indirect employment does not change notoriously the ranking of the various sectors as generators of jobs (Fig. 4.2). Predictably, sectors with the highest employment effects are *catering* (52.5 FTEs/£ million), *public administration* (49.7) and *marine engineering* (42.5), which are also the most labour-intensive (Appendix 3). A £1 million increase in the size of the *public administration* thus creates almost 45 full time jobs directly and an additional 5 spread across other sectors. The sectors with the lowest employment effects are *aquaculture* (3.1) *financial services* (3.4) and *mining* (4.8). A £1 million increase in *aquacultural* sales creates 2.2 jobs directly and 0.9 more indirectly. Naturally, the size of these sectors also is important. *Catering*, *marine engineering*, and *communications* have large employment effects, but none accounts for more than 1% of Shetland's total output. This is not the case of *aquaculture*, which contributes 14% of this output, or the *public administration*, which employs 29%

of its labour force. Either directly or indirectly, all of these sectors can have a critical impact on the region’s labour market.²¹

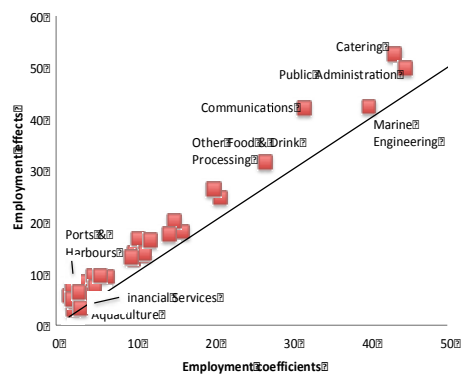


Figure 4.2 Employment coefficients and effects by sector, 2010-11

²¹ See the section on simulation of Scenarios.

5 Household Income and Expenditure

Household income. Average household income in Shetland for 2010-11 is estimated at £38,418, which represents a nominal increase of 17% with respect to 2003 (Table 5.1). Average income is highest for households without children, whose total earnings amounted to £45,904. Income is also above average for households with children at £41,316, while retiree households earn less than half the average, or £17,162. Wages and salaries contribute two thirds of total income in average, or £25,590, followed in importance by pensions, 15% or £5,653, and self-employed income, 12% or £4,535. Social security and various other income sources contribute an additional 5% or £1,786, while investment and rental income contribute the remaining 2% or £854 in average.

Changes in the relative contribution of different sources of income since the 1996-97 study reveal an interesting pattern. At the most aggregate level, for instance, there is an increasing reliance on pensions for income, whose relative contribution almost doubled from 8% in 1997 to 15% in 2011 (Fig. 5.1). A possible explanation for this trend is that the Shetland population is aging. Twenty-one per cent of survey respondents are retiree households. The General Register Office for Scotland places the pensionable-age population in Shetland at 17% of the total in 2011.²² The General Register Office for Scotland expects that this population will nevertheless increase to 22% by 2020. Alternatively, the trend in pensions might reflect an increase in the value of pensions relative to other sources of income. Among retirees, the sum of state and private pensions has increased 14% in nominal terms since 2003 (Table 2), amounting to £14,872 (or 87% of their income) in 2011. As we would expect, pensions are largest and most important for retiree households, but they have increased for other groups as well. Among households without children, pension income increased almost 300% in nominal terms, contributing £5,219 (or 11% of their income), compared to £303 (or 1%) for households with children.

²² See National Records of Scotland, 2012

Table 5.1 Average incomes in Shetland, by household group and income source, 2010-11

	Wages & Salaries £ (%)	Self Employment £ (%)	Investment Income £ (%)	Pensions £ (%)	Social Security & Other £ (%)	Total Income £
Households with no Children	31,174 (68)	7,376 (16)	1,122 (2)	5,219 (11)	1,012 (2)	45,904 (100)
Households with Children	34,068 (82)	3,342 (8)	394 (1)	303 (1)	3,209 (8)	41,316 (100)
Retiree Households	0 (0)	0 (0)	962 (6)	14,872 (87)	1,329 (8)	17,162 (100)
All Households	25,590 (67)	4,535 (12)	854 (2)	5,653 (15)	1,786 (5)	38,418 (100)

Other sources of income show contrasting trends. For instance, self employment's contribution to income has declined gradually from 15% in 1996-97 to 12% in 2011. However, this trend is not common to all household groups. Self employment's share of total income decreased sharply for households with children, from 24% in 2003 to 8% in 2011; but it increased for households without children from 12 to 16% (Table 5.2).

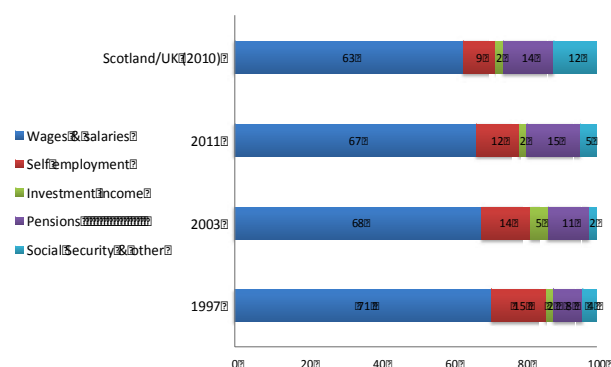


Figure 5.1 Sources of household income in Shetland, 1996-97 to 2010-11

The same pattern is observed when the focus is on absolute rather than relative changes. Self employment contributed almost three times as much to households with children than without children in 2003; but the opposite is observed today: self employment now contributes more than twice as much income to the latter than the former. Income from this source increased 72% between 2003 and 2010-11 for households without children, from £4,283 to £7,376; but it decreased 71% for households with children, from £11,507 to £3,342. Survey data do not reveal the cause of these changes, so we can only hypothesize on the possible reasons. Again, it is possible that the trends reflect an aging population, particularly among business owners that might have moved across groups as their children left home. At the same time, newly formed households (with children) might be less successful in establishing a business today than in the past.

Table 5.2 Changes in household income, 2003 to 2010-11

	Wages & Salaries	Self Employment	Investment Income	Pensions	Social Security & Other	Total Income
Households with no Children	10%	72%	-33%	323%	15%	26%
Households with Children	-3%	-71%	up	up	134%	-14%
Retiree Households	-100%	-100%	-59%	23%	up	13%
All Households	14%	2%	-46%	52%	143%	17%

Wages and salaries also contribute a diminishing share of total income, dropping from 70% in 1996-97 to 67% in 2010-11; but the two remaining income categories exhibit a changing pattern. Investment income constituted a growing source of income between 1997 and 2003, more than doubling its share of the total during this period, from 2 to 5%; but this number returned to 2% in 2011. Social security and other sources of income, on the other hand, followed exactly the opposite pattern. Their relative contribution declined from 5 to 2% between 1996-97 and 2003 but then increased to 4% in 2010-11. In this case too, there are important differences between household groups. As with self employment, wages and salaries increased between 2003 and 2010-11 for households without children, albeit only by 4% in this case; yet, they decreased by 7% for households with children (Table 2). The latter's loss is off-set almost entirely by a 126% increase in Social Security and other benefits. Households without children also experience an increase (9%) in these benefits, which still represent only 2% of total income, but a simultaneous loss (37%) of investment and rental income.

Overall, changes since 2003 represented a 26% nominal increase in total income for households without children and a 13% increase for retiree households, but a 14% nominal decrease for households with children. This does not necessarily mean that particular households have sustained income losses, although this might be the case for some. We have not followed the same households during this fifteen-year period; household groups constitute a changing set of households each round of the survey. Thus, changes in income might reflect changes in the composition of each group. It could be the case, as suggested above, that households who had children in 2003 have experienced no income losses but they have become households without children. On the other hand, newly-formed households might enjoy fewer opportunities today than their counterparts did in 2003. As for relative contribution of various income sources, as we have said, changes seem to have followed a pattern since 1997, where wages,

salaries and self-employed income have lost weight while pensions have gained in importance. This trend was apparent already in 2003.²³

The results suggest that Shetland has moved closer to the pattern observed throughout Scotland and the rest of the United Kingdom (Fig. 5.1). The average household in Scotland and the UK derives 63% of its income from wages and salaries, and 9% from self employment. That is, in 2010, these sources jointly contributed 6 percentage points less to the average income in Scotland than in Shetland. Yet, the gap in 2003 was 1.5 times as large, i.e., 9 percentage points.²⁴ Similarly, in 2003, pensions contributed 2 percentage points less to the average household in Shetland than in Scotland, but the gap has closed completely in 2010-11. If this convergence continues, it could entail either a simple redistribution across income sources or absolute income changes for Shetland households—namely, income losses.

Household expenditure. About 80% of household expenditure is divided evenly among four broad categories: *food and drink* (20%), *housing* (20%), *private transport* (21%), and *other regular expenditure* (18%). The remainder consists of *other capital expenditure* (7%), *other transportation and travel* (4%), *holidays, entertainment and recreation* (5%), and *savings* (7%). Again, the pattern differs among household groups (Table 5.3). Households without children spend the highest share on *private transport* (23%), while both households with children and retiree households spend most on *housing* (26% and 25%, respectively). The smallest share of childless households' income goes to *public transportation and travel* (4%), and to *other capital expenditure* in the case of retiree households (2%), while households with children spend equal shares on both categories (3%). The share of income that households without children save, 9%, is twice as large as that of other groups. In absolute terms, they save 156% more than households with children and 350% more than retiree households. Yet, households without children still spend 8% more on absolute terms than households with children, and 130% more than retirees.

²³ See Newlands and Roberts, op cit.

²⁴ Ibid.

Table 5.3 Household expenditure in Shetland by household group, 2010-11

	All Households	Households without Children	Households with Children	Retiree Households
Food & Drink	20%	19%	19%	24%
At home	16%	15%	16%	21%
Restaurants & Bars	4%	5%	3%	3%
Other Regular Expenditure	18%	16%	20%	23%
Clothing & Footwear	3%	2%	3%	3%
Insurance	3%	2%	3%	2%
Communications	3%	2%	4%	4%
Other loan payments	2%	2%	2%	2%
Other	7%	7%	7%	12%
Housing	20%	15%	26%	25%
Rents & mortgages	9%	6%	15%	4%
Energy	6%	5%	6%	9%
Repairs & miscellaneous	3%	3%	2%	7%
Council tax	3%	2%	3%	5%
Other Capital Expenditure	7%	10%	3%	2%
Durable goods	3%	3%	2%	2%
Other capital expenditure	4%	7%	1%	0%
Private Transport	21%	23%	20%	13%
Purchase & loans	10%	10%	11%	6%
Petrol & diesel	8%	10%	7%	6%
Other	2%	2%	3%	2%
Other Transportation & Travel	4%	4%	3%	3%
Travel & transportation	4%	4%	3%	3%
Holidays, Entertainment & Rec	5%	4%	5%	5%
Holidays	3%	3%	3%	4%
Entertainment & recreation	2%	1%	2%	1%
Savings	7%	9%	4%	5%
Savings	7%	9%	4%	5%

Interesting differences in spending patterns across groups are observed within these broad categories (Table 5.3). Households with children are the group that spends the greatest share on *rents and mortgages* (15%) and the least on *housing repairs* (2%). Perhaps predictably, retirees are the group that spends the least on *rents and mortgages* (4%), but also the most on *energy* (9%), *repairs* (7%) and *council tax* (5%). Households without children, for their part, spend less than average in all *housing-expenditure* categories but more than average in all *private-transport* categories. Retirees also spend a greater share of their income on *food and drink consumed at home* than other groups, while households without children spend much more on *restaurants and bars* than other groups.

Table 5.4 Household expenditure in capital goods in Shetland by group, 2010-11

	All Spending %	Furniture %	Electrical Equipment %	Cars & Vehicles %	Clothing & Footwear %
Households with no Children	67	38	55	54	35
Households with Children	65	77	36	69	22
Retiree Households	76	93	62	98	54
All Households	67	48	51	61	32

Table 5.5 Household expenditure in and outside Shetland, 2010-11

	All Spending %	Furniture %	Electrical Equipment %	Cars & Vehicles %	Clothing & Footwear %
In Shetland	67	48	51	61	32
Outside Shetland	25	42	15	36	26
On-line purchases	7	9	28	3	30
Mail-order purchases	1	1	6	0	12

Table 5.6 Change (in percentage points) in household expenditure in and outside Shetland, 2003 to 2010-11

	Furniture	Electrical Equipment	Cars & Vehicles	Clothing & Footwear
In Shetland	-1	4	6	5
Outside Shetland	8	-8	-9	-15
On-line purchases	5	4	3	20
Mail-order purchases	-12	0	0	-11

Spatial patterns of expenditure also differ noticeably among household groups. Retirees spend a greater share of their income within Shetland than other groups (Table 5.4). For instance, they purchase 98% of their *vehicles* and 93% of their *furniture* in Shetland, compared to 54% and 38%, respectively, for households without children. Retirees also purchase 54% of their *clothing and footwear* and 62% of their *electrical equipment* locally, compared to 22% and 36% for households with children. Presumably, these differences will be reflected on the distribution of aggregate expenditure as the population ages. In 2011, two thirds of all household expenditure occurred within Shetland (Table 5.5); another 25% occurred during trips away from Shetland, while on-line and mail-order purchases accounted for 7% and 1% of the total, respectively. Four categories where the local share of expenditure was less than average are: *furniture* (48%), *electrical equipment* (51%), *cars and vehicles* (61%), and *clothing and footwear* (32%).

Furniture and vehicles often were purchased directly outside Shetland; but electric goods, and clothing and footwear were most often purchased on-line or through mail order. It might not surprise that in all of these categories, the share of on-line expenditure has increased 3 to 20 percentage points between 2003 and 2010-11 (Table 5.6), while the share that was purchased through mail order decreased. More unexpected, perhaps, is that in most cases the share bought during trips also has declined, while local purchases have increased.

Overall, changes in expenditure patterns suggest that for some *consumer-goods* categories, e-commerce is gaining ground in Shetland, partly substituting purchases made during trips or through mail order. Surprisingly, local commerce also has gained ground. This is significant because the sector could have a strong multiplier effect on the Shetland economy. According to preliminary estimates, commerce might account for over 10% of local employment and gross domestic product. An analysis of the forces driving these changes is pending, but we can hypothesize on the possible causes. Presumably, spending patterns reflect both convenience and pricing, with local commerce offering greater convenience (particularly to those reluctant to travel) but higher prices. Thus, it is possible that local outlets have grown increasingly competitive. Another possibility is that these changes, as other trends observed above, are linked to the spending preferences of an aging population. Households with children spend the smallest share of income in Shetland, 65%, compared to 76% for retiree households. Noticeably, retirees' apparent preference for local retail outlets is most marked for those categories where spending outside Shetland is highest (Tables 5.4 and 5.5).

6 Trade and Exchequer Balance

It is possible to speak of imports and exports in Shetland, as we have done in previous sections, and even of a balance of payments as an analogy to these terms' meaning at the national level. Shetland's balance of payments does not have monetary repercussions as that of the UK, but it does have other interesting implications.

Imports into Shetland, for instance, must be financed either by external sources of income, such as exports or state benefits, or by drawing upon savings. In this section we describe Shetland's balance of trade first and then its Exchequer balance.

Imports, exports and other trade issues. We have considered two types of trade-related income and expenditure: i) industrial imports and exports by local businesses and organizations, and ii) expenditure of Shetland residents and tourists.

The estimated value of exports from Shetland in 2010-11 was £496 million: £166.5 million in exports to the rest of Scotland, £118 million to the rest of the UK and £212 million to the rest of the world. The estimated value of industrial imports to Shetland in was £365 million: £260 million in imports from the rest of Scotland, £63 million from the rest of the UK and £42 million from the rest of the world. These figures entail a trade balance of £131 million (Table 6.1).

Table 6.1 Imports, exports and trade balance in Shetland, 2010-11

	Imports (£ million)	Exports (£ million)	Trade Balance (£ million)
Value	365	496	131
Change since 2003 ¹	-4.4%	180%	
Annual growth rate ¹	-0.6%	8.8%	

¹ In real terms.

In 2003, imports and exports (£382 and £275 million, respectively, at 2010-11 prices) generated a trade deficit of £106 million. Since then, exports have grown at an annual rate of 8.8% in real terms, while imports decreased 0.6% per year, thus converting Shetland's deficit into a favourable trade balance (Fig. 6.1). This is in sharp contrast to

the period between 1996-97 and 2003, when exports decreased 0.7% per year, while imports and the trade deficit grew at annual rates of 0.5 and 4.3%, respectively.

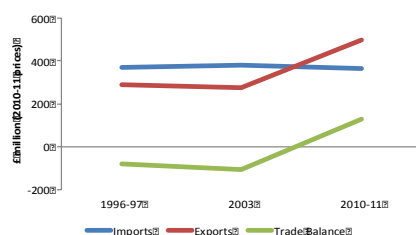


Figure 6.1 Imports, exports and trade balance in Shetland, 1996-97 to 2010-11

Shifts in the origin of imports and destination of exports since 1996-97 also are observed. The share of exports out of the UK has increased from 25% in 1996-97 to 43% in 2010-11 (Fig. 6.2). Similarly, exports to the rest of Scotland have increased considerably, particularly after 2003, while exports to the rest of the UK have declined as a per cent of the total from 51 in 1996-97 to 24% in 2010-11.

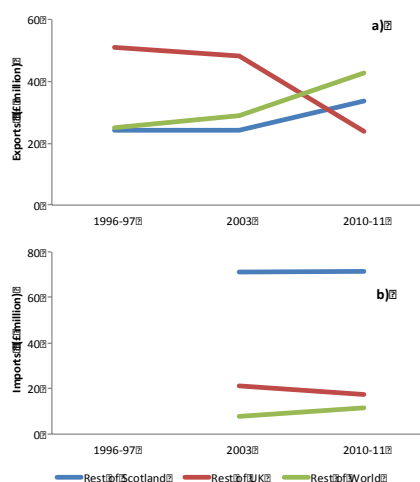


Figure 6.2 Imports and exports in Shetland by origin and destination, 1996-97 to 2010-11

On the other hand, the source of industrial imports has remained relatively stable, with the rest of Scotland supplying 71% of the total since 2003. While the rest of the UK remains the second largest supplier of imports into Shetland, it has lost ground during the last decade to imports from outside the UK.

As noted in the previous regional study for Shetland, changes in export patterns might be the result of declining oil sales to the UK; yet, these have not resulted in the decline in total exports or expanding trade deficit that might have been expected. As we have noted, the balance of trade for Shetland has improved since 2003. Arguably, the substitution of domestic oil exports with international trade of other goods has helped Shetland diversify, buffering it from economic fluctuation elsewhere in the UK and energy price shocks. However, the region’s exports remain critically concentrated in primary sectors: 58% of Shetland exports in 2010-11 came from *aquaculture* (£144 million), *fish processing* (£82 million) and *fish catching* (£60 million), while the *oil terminal* could have accounted for an additional 7.5% (or £37 million) (Fig. 6.3).

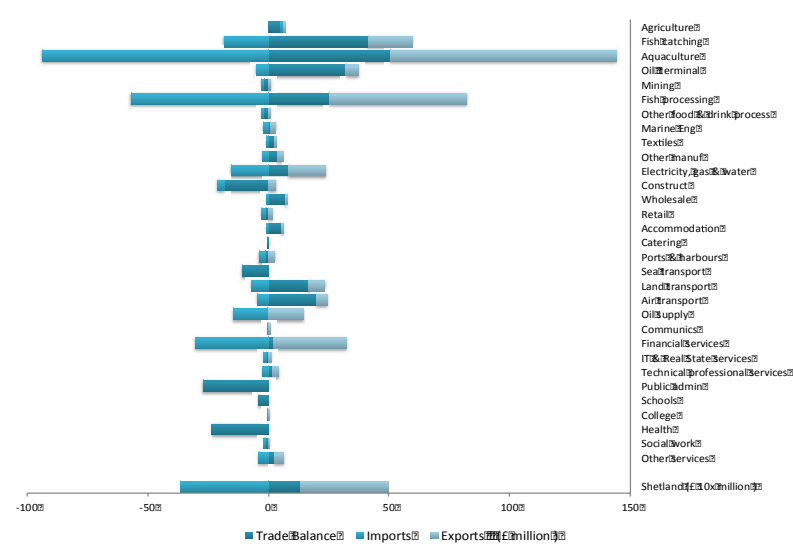


Figure 6.3 Industrial imports and exports in Shetland by sector, 2010-11

Aquaculture and *fish processing* are also the regions’ largest importers, responsible for 41% of all industrial imports (£94 and £57 million, respectively). However, all primary industries (except *mining*) have a favourable trade balance. *Aquaculture*, *fish catching* and *fish processing* alone account for 89% of Shetland’s industrial trade balance (Fig. 6.4). Exports of natural resources can help finance imports elsewhere in the economy, as might be the case with the construction sector, which has one of the largest trade

deficits in the region. Services sectors such as *health* and the *public administration* show large deficits.²⁵

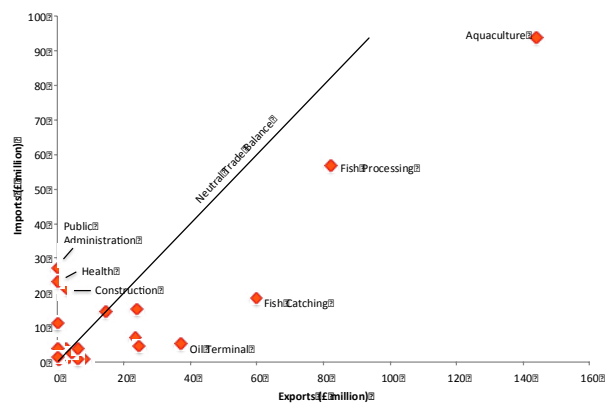
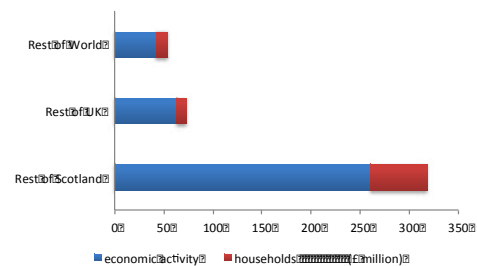


Figure 6.4 Industrial trade balances in Shetland by sector, 2010-11

In principle, the industrial trade balance also helps finance household expenditure outside Shetland, which in 2010-11 amounted to £60 million, or 18% of the region’s total “imports”. As with industrial imports, 71% of domestic “imports” were purchased in Scotland, but households spent less in the rest of the UK than in other countries.

The last component of Shetland’s balance of trade corresponds to tourists, who spent £14 million locally in 2010-11, contribution 3% of the region’s total “exports”. Although small, tourist expenditure experienced a 26% increase in real terms since 2003, compared to a 19% increase between 1996-97 and 2003. This means that during the last decade tourism has grown on par with the rest of the economy.



²⁵ Imports, exports and trade balances by sector are presented in full detail in Appendix 4.

Figure 6.4 Industrial imports and domestic expenditure outside Shetland, 2010-11

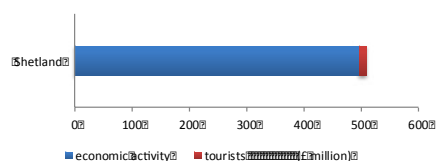


Figure 6.5 Industrial export and tourist expenditure in Shetland, 2010-11

Exchequer Balance. Total government revenue raised in Shetland in 2010-2011 was almost £219 million (Table 6.2). Of this amount, £195.9 million was raised by the Central Government, including £138.9 million in taxes and £43.4 million in other transfers. Direct taxes raised £95 million, including £46.5 million in Corporation Tax and £48.6 million in Income Tax. Indirect taxes, such as VAT, raised £44 million from businesses, households and tourists. Among other transfers, the Central Government collected £38 million in the form of Employers' National Insurance contributions, £19 million in pension deductions and £5.4 in business rates transferred from the Shetland Island Council. The Council raised the remaining £23 million, including £8.6 million in Council tax (£6.7 million raised from Shetland residents and £1.8 million from non-residents) and £14.2 million in business rates. A fraction of business rates equal to £5.4 million were transferred to Central Government, raising its revenue in Shetland to £201 million. The Council's gross revenue totalled £122 million, including the £23 million collected within Shetland (see above) and £99 million in grants from central government: General Capital Grant (£3.8 million), General Revenue Grant (£87 million), Housing Support Grant (£1.2 million) and Scottish Government Specific Grants (£7.1 million).

Total government revenue raised in Shetland increased by 29% in real terms since 2003. The Central Government's revenue in Shetland increased by 31%, including a 26% increase in tax revenue and apparently a 13% decrease in National Insurance contributions amounting to £5.8 million in real terms. However, this decrease could

correspond to a different treatment of pension deductions (£19.1 million) in the 2003 study. Local government revenue increased by 40%, including a 40% increase in Central Government Grants and 89% increase in business rates. Council tax also increased by 1.4% in real terms. (The apparent decrease in Council tax payments in Table 2 is due to disaggregation into payments by Shetland resident and non-residents.)

Total government expenditure in Shetland in 2010-11 was £276 million, a 40% increase in real terms since 2003. Central Government expenditure was £222 million (up 34%), including the transfer to the Shetland Islands Council of £99 million (up 40%). The Central Government's direct expenditure (that is, excluding the transfer to the Council) was £123, including £93 million business expenditure or subsidies (up 46%) and transfers to households (pensions and social security payments) amounting to £30 million (down 7% in real terms). Total Council expenditure (including the transfer from Central Government) was £159 million, a 30% increase in real terms since 2003. Its direct expenditure (that is, excluding the transfer of business rates to Central Government) was £153 million, which consisted largely of business expenditure (a 26% increase). In 2010-2011, the Council drew £37.0 million from reserves, a 6% increase in real terms.

Table 6.2 Exchequer balance for Shetland, 2010-11

Sector	Economic Activities	Income	National Insurance	Households	Local Government	Central Government	RoW	Total Receipts	Balances by branch	Exch Balance (subtotals)	Exch Balance
Economic Activities					153,249,328	93,206,804		1,091,421,267		246,456,132	
Households					76,310	29,701,132		294,921,667		29,777,442	
Local Government	14,151,576			6,716,803		98,980,592	1,881,087	121,730,058		17,318,193	
CG Direct Tax	46,531,644	8,720,302		48,605,340				95,136,984			
CG Indirect Tax	19,314,040			23,727,407				43,757,147	138,894,131	201,315,110	218,633,303
CG Transfers			37,920,981		5,431,274			43,352,255	43,352,255		
Capital Account	0	19,068,724		33,240,699	-37,026,854			38,384,627	19,068,724		
Total Outlays	1,091,421,269	317,333,466	37,920,981	294,921,668	158,756,913	221,888,528	1,881,087	303,976,444	201,315,110		
Exch Balance (subtotals)	79,997,261	56,989,706		79,049,550	54,345,047	221,888,528					
Exchequer Balance					276,233,575			82,087,916		-20,573,418	-57,600,272

We define the Exchequer Balance as the difference between government revenue raised from businesses and households in Shetland and government expenditure on businesses and households in Shetland. Following the methodology of the previous regional accounts for Shetland, we estimate that Shetland businesses and households made a net contribution of £82 million to central government in 2010-11. The balance represents 27% of government revenue in Shetland.

In 2003, in comparison, the balance was £77 million (or £63 million at 2003 prices) or 32% of Central Government expenditure. In sum, the Exchequer balance for Shetland has increased 7% in real terms since 2003, but it now represents 5 percentage points less of government receipts.

As to the source of differences, government revenue collected from Shetland residents in 2010-11 decreased by 22% with respect to 2003, while transfers to these households decreased by 6%. In contrast, government revenue collected from Shetland businesses increased by 214%, while expenditure increased by 33%. National Insurance and pension deductions increased by 30% in aggregate. This suggests that businesses' net contribution to Government increased between 2003 and 2010-2011, while households' net contribution decreased. We estimate that households paid 27% of their income (net of deductions) to government in 2010-11 and 23.6% in 2003. Therefore, the decrease in household contributions can be attributed to a lower income base in 2010-11 with respect to 2003. We estimate that income increased by 1% in real terms during this period, but we now disaggregate households into Shetland residents and non-residents. In 2010-11, these groups' aggregate income was £191.3 and £89.5, respectively. By definition, the latter group does not contribute to the Exchequer balance for Shetland.

7 Scenarios

We consider various scenarios with potentially important implications for the Shetland economy. One of these – reduced Shetland Islands Council spending – is an update of a preliminary analysis published in 2012.²⁶ The remaining scenarios involve market shocks that could affect some of the largest sectors in Shetland in terms of output, namely *aquaculture* and the *Sullom Voe oil terminal*.²⁷

Council savings. Falling income from the General Revenue Grant and diminishing Council reserves impose serious constraints on the Council's current and future spending. Accordingly, the Council has set out to secure expenditure savings of £26M per year from a starting position of £125M. The Council has already identified some £7M of efficiencies (approximately 6% of its current spending), and it intends to implement a full savings plan on an on-going basis by 2013-14. A number of possibilities are being considered, but all areas of the Council have had to look for at least a 10% reduction in on-going costs by 2013-14.

We explored the potential implications of Council savings on the region's economy through two scenarios. The first considers efficiencies of £7M in 2011-12; the second assumes efficiencies of £26M per year by 2013-14. Simulations suggest that efficiencies of £7M per year already entailed a 0.9% decrease in Shetland's total output in 2011-12, equivalent to £9.5M (Table 7.1). This implies that Council savings had indirect effects with a value of £2.5M—a 0.3% decrease in total output. Similarly, £26M in annual savings expected by 2013-14 could entail a decrease of £35.4M in Shetland's total output, or 3.3%, 2.4% of which would be directly attributable to Council savings and an additional 0.9% due to their indirect effects.

²⁶ See Dyer (2012) Implications of Council Savings on the Shetland Economy.

²⁷ See the discussion in the Sectoral Analysis section.

Table 7.1 Expected changes in output, GRDP, wages and profits after Council savings

	2011-12		2013-14	
	(£ million)	(%)	(£ million)	(%)
Council savings	7.0		26.0	
Output	-9.5	-0.9	-35.4	-3.3
GRDP	-5.3	-1.1	-19.8	-4.1
Wages	-4.4	-1.4	-16.3	-5.2
Profits	-0.9	-0.6	-3.5	-2.1

As a per cent of each sector's output, the sectors most affected by the savings are *schools, social work, the public administration and sea transport* (Fig. 7.1).²⁸ Their revenue decreases by 16, 15, 14 and 12%, respectively. Another 16 sectors contract by between 1 and 10%, while 7 sectors experience declines between 0.1 and 1%. *Aquaculture, fish catching, fish processing and health* are not affected significantly.

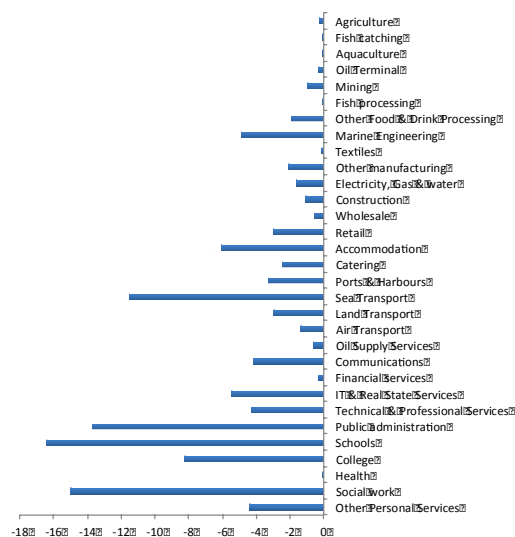


Figure 7.1 Expected declines in sectoral output (per cent) after Council savings by 2013-14

Per cent changes are slightly more pronounced in terms of GRDP than output (Table 7.1). Council savings presumably entailed a 1.1% decrease in Shetland's GRDP in 2011-12, equivalent to £5.3M. According to simulation results, savings will result in a

²⁸ Expected sectoral decline rates are reported in full detail in Appendix 5.

4.1% decrease in the region's GRDP by 2013-14, or £19.8M. This decrease is not distributed equally between wages and profits, which decrease by 5.2 and 2.1%, respectively, by 2013-14.

Council savings also entail the loss of 181 FTEs in 2011-12 and 673 FTEs by 2013-14, which imply decreases in employment of 1.7% and 6.4%, respectively. In 2013-14, 73% of losses (489 FTEs) occur within the public sector, namely, the *public administration* (414 FTEs) and *schools* (75). Another 184 full-time jobs are lost indirectly across the Shetland economy. In absolute terms, the largest losses are in *retail* (28 FTEs), *other personal services* (23), *marine engineering* (22), *accommodation* (16) and *social work* (15) (Fig. 7.2).

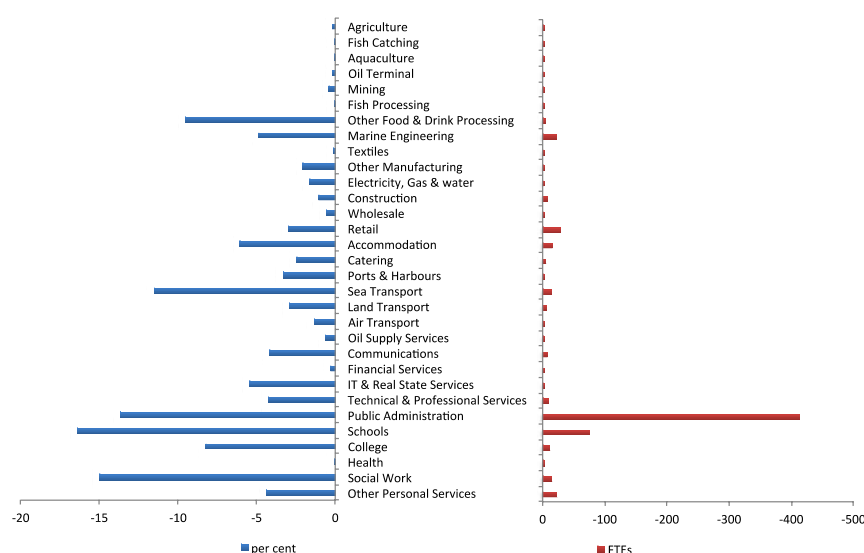


Figure 7.2 Expected declines in sectoral employment after Council savings by 2013-14

In percentage terms, five sectors decrease their labour force by 10% or more: *schools* (16%), *social work* (15%), *public administration* (14%), *sea transport* (12%) and *other food and drink processing* (10%). On the other hand, sectors that are tightly linked to the rest of Scotland or the world, such as *aquaculture*, *oil supply services*, *financial services* and *health* do not experience significant changes in employment.²⁹

²⁹ Expected changes in employment are reported in full detail in Appendix 5.

Expected changes in employment across occupations are shown in Figure 7.3. In both percentage and absolute terms the largest reductions are observed in the *associate professional and technical* category, where 108 full-time jobs are lost, representing a 9.4% decrease with respect to pre-savings levels. The *administrative and secretarial, professional, and personal service occupations* categories also experience losses of at least 7.4%. Decreases in other categories range between 5.3 and 2.1%. In the case of *skilled trade occupations*, this could nevertheless represent the loss of 47 FTEs.

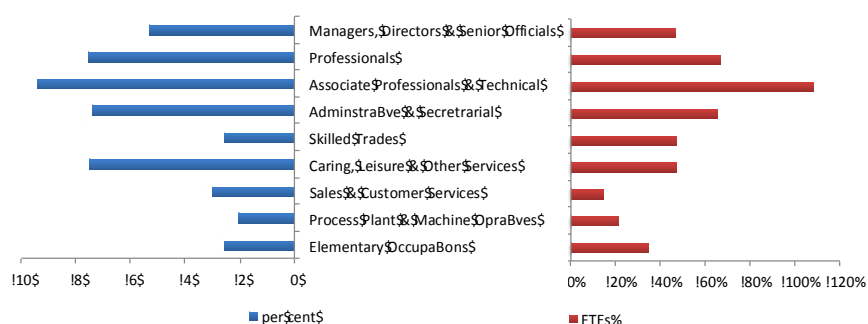


Figure 7.3 Expected declines in employment by occupational category after Council savings by 2013-14

Changes reported above ultimately reduce the income of Shetland residents. Losses for the average household are equal to 1.1% of their income in 2011-12 and 4.1% by 2013-14 (Table 7.2). The source of these changes is decreases in wage income and profits. By 2013-14, we expect these two sources of income to drop by 5.2 and 2.1%, respectively. The distribution of these reductions across household groups is far from uniform. Household with and without children experience above-average losses (-4.1 and -3.6%, respectively), while retiree households experience rather small changes (-0.1%).

Table 7.2 Expected changes in income, wages and profits after Council savings

	2011-12 (%)	2013-14 (%)
Wages	-1.4	-5.2
Profits	-0.6	-2.1

Total Income | -1.1 -4.1

Aquacultural exports. We now analyse the implications of a scenario where the value of aquacultural exports falls by 50%. Although, in principle, this could be the result of either a decrease in the price of aquacultural goods or in the volume of sales, the latter is closer to model assumptions.³⁰

Since most aquacultural products are exported out of Shetland, a 50% reduction in their value decreases the sector's revenue by 49%. In 2010-11, this would have represented £77.2 million less in sales, which is equivalent to 7.1% of Shetland's total output. The decline of *aquaculture* also leads to lower sales in other economic sectors. *Other food and drink processing, retail and catering* decrease by more than 2%; four other sectors decrease between 1 and 2%, and 19 sectors by up to 1% (Fig 7.4). Overall, Shetland's total output declines by 7.5%: 7.1% due directly to *aquaculture* and 0.4% distributed across the region's economy. This large decline is expected given that *aquaculture*, is the largest sector in terms of output value and the largest contributor to economic growth in recent years.³¹ At the same time, it is not surprising that the indirect effects of the sector's decline are relatively small, since *aquaculture's* multiplier is among the smallest in Shetland.³²

³⁰ See footnote 17.

³¹ See the section on Sectoral Analysis for a discussion on *aquaculture's* contribution to the Shetland economy.

³² See the discussion on this topic in the section on Multiplier Analysis.

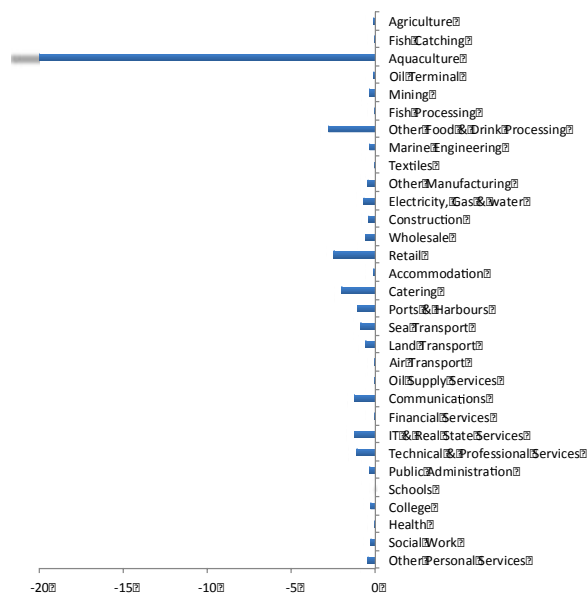


Figure 7.4 Expected declines in sectoral output (per cent) after a decline of aquacultural exports

As expected, the overall effect on Shetland's GRDP is smaller than that on output (Table 7.3). While GRDP decreases by 5.5%, local profits decrease by 13% given the sector's large contribution to this type of value added.³³ In contrast, due to the sector's low employment coefficient³⁴, the loss of over £77M in sales results in only 173 less full-time jobs in *aquaculture*. An additional 65 full-time jobs are lost in other sectors. However, compared to the large decrease in Shetland profits, the sector's impact on local employment is relatively small: the loss of 238 FTEs represents only a 2.3% decrease in employment.

Table 7.3 Expected changes in income, wages and profits after a decline of aquacultural exports

	(£ million)	(%)
GRDP	-26.8	-5.2
Wages	-5.2	-1.6
Profits	-21.6	-12.9
Total Income	-8.6	-2.9

³³ See Fig. 2.4 in the section on Sectoral Analysis.

³⁴ See Fig. 4.2 in the section on Multiplier Analysis.

Among the sectors that reduce their labour force the most are *retail* (23 FTEs) and *other food and drink processing* (7 FTEs) (Fig. 7.5). Given *aquaculture’s* reliance on services provided by the Council, the *public administration* could also reduce its labour force significantly (11 FTEs).

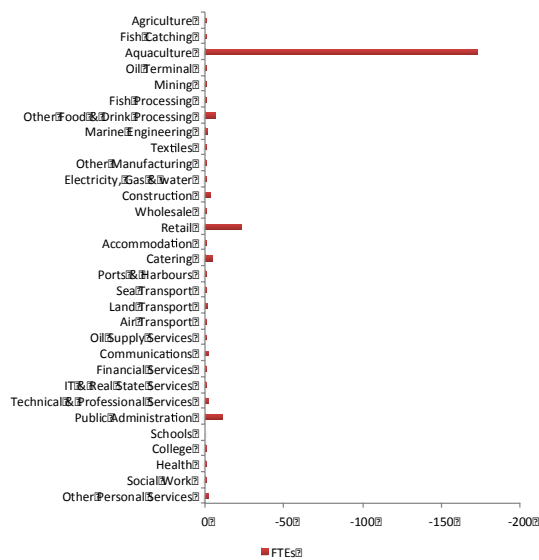


Figure 7.5 Expected declines in sectoral employment after a decline of aquacultural exports

In terms of income, households with and without children experience decreases of 2.5 and 3.5%, respectively, while retiree households’ income decreases only 0.7%.

Income changes in the two scenarios analysed so far—a decrease in the value of aquacultural exports and the implementation of Council savings—are compared in Figure 7.6. Both scenarios have similar effects on households without children, and to a lesser degree, on households with children. However the actual distribution of these effects across households within groups could differ markedly. As we have said, the first scenario leads to large wage losses, while the second one results in a large decline in profits.

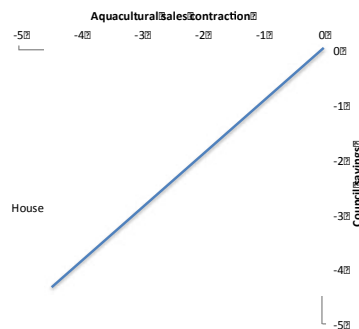


Figure 7.6 Comparison of effects of two scenarios on household income (per cent)

Also, as shown in Figure 7.7, the two shocks have very different effects on individual sectors. *Schools*, for instance, declines markedly with Council savings but not at all when aquacultural sales contracts, while *aquaculture* is not affected by Council savings.³⁵ This suggests that different households would bear the cost of these two shocks. On the other hand, while numerous other sectors, including *fish catching*, *textiles* and *health*, are not affected noticeably in either scenario, others such as *retail* and *sea transport* contract noticeably in both cases and hence presumably are most vulnerable.

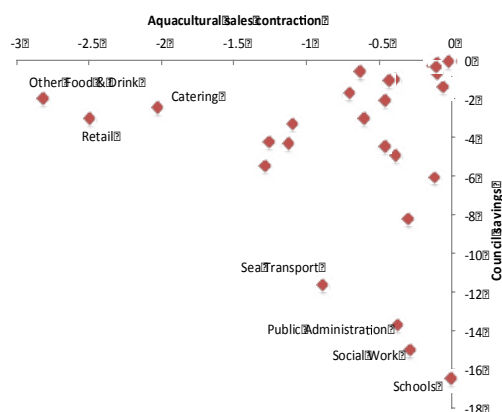


Figure 7.4 Comparison of the effects of two scenarios on sectoral output (per cent)

Oil throughput and decommissioning. We explore next the implications of likely changes in the activity of the Sullom Voe terminal and associated decommissioning work. This scenario assumes a 15% decrease in oil exports and a 30% increase in final

³⁵ See Appendix 4.

demand for *marine engineering* and *construction*. Given that a significant share of the terminal’s revenue consists of domestic sales of electricity, the fall in throughput results in only a 12% decrease in revenue, or £5.6 million. Revenue in the *marine engineering* and *construction* sectors increases 30%, by construction, or £3.3 and 23.3 million.

Although changes in these sectors have opposite effects on the local economy, it is growth in *marine engineering* and *construction* sectors that prevails, resulting in a 2.5% increase in total output, or £26.8 million. Twenty-one sectors experience increases in output, *mining* by 27% due to its association with *construction* (Fig. 7.5). Another 7 sectors grow by more than 1%. Some sectors decline, but excluding the *oil terminal*, only *ports and harbours* experiences a significant contraction (-3.5%); other sectors contract less than 0.8%. Overall, around 80% of the increase in Shetland’s total output is associated *marine engineering* and *construction*, while the rest is associated with other sectors. This reflects the influence of the *oil terminal*, which is more integrated to the Shetland economy than either *marine engineering* or *construction* (Table 4.1).³⁶

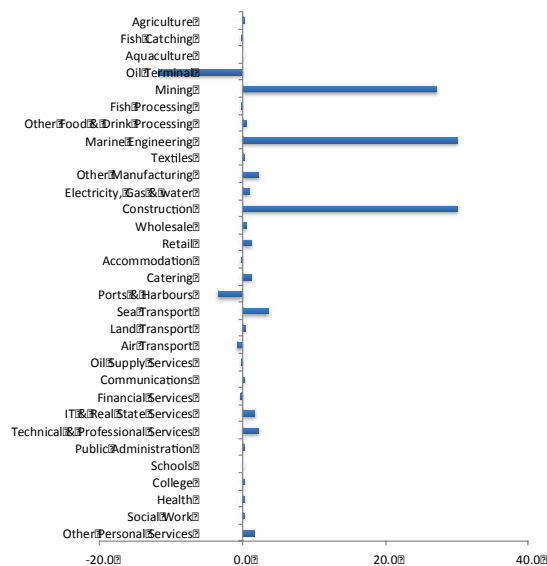


Figure 7.5 Expected changes in sectoral output in the oil throughput-decommissioning scenario

³⁶ See Table 4.1 in the section on Multiplier Analysis.

Employment in the *oil terminal* decreases by 26 FTEs, but it expands by 132 FTEs in *marine engineering* and 233 FTEs in construction, resulting in a net gain of 339 FTEs (Fig. 7.6). This reflects the large differences in the three sectors' employment coefficients (Appendix 3). Additionally, another 47 full-time jobs are created elsewhere in the economy. Only *ports and harbour* and air transport reduces their labour force, by 2 and 1 FTEs, respectively, which represents decrease of 3 and 1%.

The net result is a 3.7% increase in local employment, entailing the creation of 386 full-time jobs.

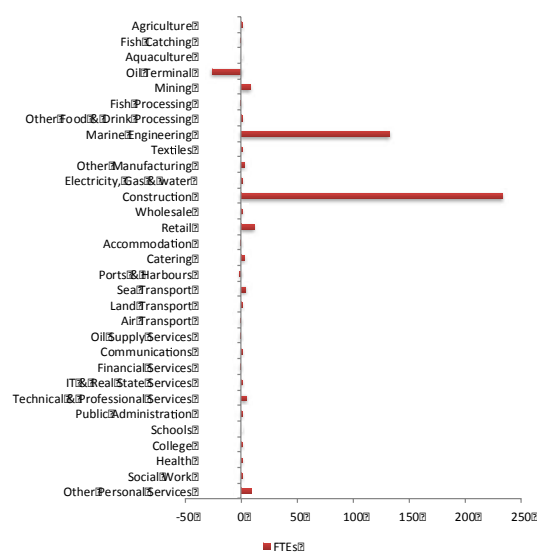


Figure 7.6 Expected changes in sectoral employment in the oil throughput-decommissioning scenario

Finally, GRDP increases by 2.3%, including a 3.2% in increase in wages and 1.4% in profits. In terms of income, households with and without children experience increases of 2.5 and 2.2%, respectively, while retiree households' income increases only 0.1%.

Glossary

Direct taxes on are corporation tax on businesses and income tax on individuals.

Employment coefficient is the ratio of employment to output, a measure of the intensity of labour or an inverse measure of the productivity of labour.

Employment effect for a particular sector is the amount of employment generated across the economy as a result of a unit increase in output from that sector.

Employment multiplier for a particular sector is the increase in total employment resulting from a unit increase in employment in that sector.

Full-time equivalent (FTE) is a measure of the workload of an employed person in comparison to full-time employment. In this study, part-time employment is considered equal to 0.5 FTE.

Gross Regional Domestic Product (GRDP) is the sum of value added, i.e., wages and gross profits, generated through the production and sale of goods and services.

Gross Value Added (GVA) is the sum of value added, i.e., wages and gross profits, generated through the production and sale of goods and services.

Indirect taxes are VAT.

Industry concentration ratio is the ratio of the output of a number of sectors to the total output in an economy, a measure of the concentration of production in those sectors.

Input-output table is a representation of the interdependencies between different economic sectors in an economy.

Input-output (type I or open) multiplier for a particular sector is the expected change in total output due to productive interdependencies after a unit increase in final demand for that sector.

Output (see **total output**).

SAM (social accounting matrix) is a representation of flows of all economic transactions that take place within an economy. It includes an **input-output table** as a sub-matrix.

SAM multiplier is the expected change in total output due to both productive interdependencies and induced consumption feedbacks after a unit increase in final demand for that sector.

Taxes (see **direct taxes**, **indirect taxes**).

Total output is equal to the value of all sales (at producer prices) net of changes in inventories summed across all economic sectors during a fiscal year.

Value added consists of wages and gross profits.

Appendix 1. Comparison of economic growth rates in Shetland and neighboring localities.

The Office of National Statistics (ONS) publishes an alternative estimate of GRDP for Shetland by the name of **Gross Value Added (GVA)**, which is based on a different database and methodology than the one used here; however, GVA and GRDP at factor costs are equivalent.³⁷ According to the ONS, GVA in Shetland was £528.5 million in 2010-2011 and £435 million in 2003 at 2010-11 prices (or £357 million at 2003 prices) (Table A.1).

Table A.1 Gross Value Added in Shetland, Orkney and Western Isles, 2003 to 2010/11

	Gross Value Added (£ million)		Cumulative change (%)	Annual growth rate (%)
	2010-11	2003 ¹		
Shetland	528.5	435.3	21.4	2.8
Orkney	341.0	282.9	20.5	2.7
Western Isles	396.0	395.1	0.2	0.0

¹ At 2010-2011 prices.

Source: Office of National Statistics, 2012

While both estimates of GVA for Shetland are higher than both regional-account estimates of GRDP, the implicit growth rates are similar: 2.8% annual growth or a 21% increase between 2003 and 2010-11. By the same criteria, Orkney has grown at the rate of 2.7% per year, while the Western Isles did not grow significantly in real terms during the same period (Table 1.1).

Since our own estimates for Shetland are based on other detailed information reported here, including data on Council income and expenditure, we refer to them throughout this report for consistency.

³⁷ See Regional Trends Online Tables <<http://www.ons.gov.uk/ons/rel/regional-trends/regional-trends-online-tables/index.html>>

Appendix 2. Sectoral contributions to total output, valued added and employment, 2003 (at 2011 prices) and annual rate of growth between 2003 and 2010-11

	Sector	Total Output (£ million)	Annual growth rate	Value Added (£ million)	Annual growth rate	Employment (FTEs)	Annual growth rate
1	Agriculture	16.006	2.1	3.907	19.7	212	-1.9
2	Fish catching	43.776	7.1	29.378	0.6	306	-1.8
3	Aquaculture	106.823	5.6	26.327	9.4	358	-0.3
4	Oil Terminal	69.502	-5.6	30.331	-5.8	337	-6.0
5	Mining	11.737	0.5	8.616	-8.8	72	-11.3
6	Fish processing	79.261	0.7	27.410	-13.3	444	-7.4
7	Other Food & Drink Processing	1.769	25.7	0.695	28.5	48	25.4
8	Marine Engineering	12.077	-1.3	9.563	-4.9	180	13.7
9	Textiles	3.878	2.7	2.238	2.2	129	-3.9
10	Other manufacturing	3.162	20.4	2.108	19.4	144	-1.7
11	Electricity, Gas & water	7.899	25.9	3.487	18.1	88	-4.2
12	Construction	72.887	0.9	31.800	0.8	885	-1.8
13	Wholesale	5.903	9.9	5.690	-5.5	116	0.3
14	Retail	46.248	3.2	37.827	-6.1	907	0.4
15	Accommodation	9.138	9.3	4.909	9.3	289	-1.6
16	Catering	3.278	7.2	2.522	2.0	156	5.8
17	Ports & Harbours	27.532	-2.3	18.656	-7.6	326	-24.4
18	Sea Transport	7.133	14.5	0.598	14.6	15	34.3
19	Land Transport	30.131	6.5	4.486	32.2	222	0.6
20	Air Transport	14.161	13.2	6.686	19.4	101	-0.1
21	Oil Supply Services	5.630	23.7	3.323	7.8	67	-4.4
22	Communications	9.320	-6.6	3.711	-9.1	126	5.5
23	Financial services	45.679	-3.1	14.701	-11.9	102	0.8
24	IT & Real State Services	3.413	12.7	1.382	12.1	37	2.5
25	Technical & Professional Services	38.005	-9.6	23.036	-7.3	523	-12.2
26	Public administration	57.084	2.4	23.734	2.1	978	17.5
27	Schools	41.261	-1.1	24.132	2.4	690	-5.7
28	College	6.666	1.1	3.639	6.0	153	-0.8
29	Health	41.895	4.4	20.180	4.7	434	3.4
30	Social work	18.510	9.9	18.195	5.7	343	-16.0
31	Other services	20.771	8.6	13.287	11.7	321	7.5
	Shetland Totals	860.537	3.5	406.550	2.3	9,109	2.0

Appendix 3. Employment coefficients, effects and multipliers for Shetland by sector 2010-11

	Employment Coefficients			Employment Effects			Employment Multipliers		
	2003	2010-11	Rank	IO Model	Rank	SAM Model	Rank		Rank
Agriculture	13.2	10.0	15	12.1	13	14.1	13	0.86	14
Fishing	7.0	3.8	22	7.4	21	8.7	21	0.85	5
Aquaculture	3.4	2.2	28	2.5	31	3.1	31	0.82	16
Oil Terminal	4.8	4.7	21	8.0	20	9.6	18	0.83	6
Mining	6.1	2.6	27	3.8	29	4.8	29	0.79	8
Fish Processing	5.6	3.1	23	4.3	25	4.9	28	0.89	11
Other Food & Drink	27.1	26.7	5	30.2	5	31.7	5	0.95	26
Marine Engineering	14.9	39.9	3	40.7	3	42.5	3	0.96	31
Textiles	33.3	20.9	6	23.1	7	24.7	7	0.94	27
Other Manufacturing	45.5	11.0	13	11.9	15	13.5	15	0.88	23
Electricity, Gas & Water	11.1	1.6	31	4.7	24	5.8	26	0.81	2
Construction	12.1	10.0	16	11.4	17	12.9	17	0.89	21
Wholesale	19.7	10.4	14	15.1	11	16.7	11	0.91	10
Retail	19.6	16.1	8	16.9	9	18.1	9	0.93	29
Accommodation	31.6	15.2	9	18.7	8	20.2	8	0.93	19
Catering	47.6	43.3	2	50.6	1	52.5	1	0.96	25
Ports & Harbours	11.8	2.0	29	5.5	23	7.4	23	0.75	1
Sea Transport	2.1	6.4	18	8.7	18	9.4	20	0.92	13
Land Transport	7.4	4.9	20	5.8	22	7.5	22	0.77	12
Air Transport	7.1	3.0	24	4.0	28	6.0	25	0.66	7
Oil Supply Services	11.9	2.0	30	4.2	26	4.9	27	0.85	3
Communications	13.5	31.7	4	40.6	4	42.2	4	0.96	18
Financial Services	2.2	3.0	25	3.0	30	3.4	30	0.88	28
IT & Real Estate Services	10.8	5.6	19	8.3	19	9.6	19	0.87	9
Technical & Professional Services	13.8	11.3	12	12.1	14	13.9	14	0.87	22
Public Administration	17.1	44.7	1	48.2	2	49.7	2	0.97	30
Schools	16.7	12.0	11	13.9	12	16.4	12	0.85	17
College	23.0	20.2	7	24.1	6	26.4	6	0.91	20
Health	10.4	9.7	17	11.7	16	13.3	16	0.88	15
Social Work	18.5	2.8	26	4.0	27	6.4	24	0.62	4
Other Personal Services	15.5	14.4	10	15.8	10	17.6	10	0.90	24

Appendix 4. Imports, exports and trade balance in Shetland by sector, 2010-11

	Sector	Imports	Rank	Exports	Rank	Trade Balance	Rank
1	Agriculture	1.107	25	6.132	13	5.024	10
2	Fish catching	18.538	7	59.719	3	41.181	3
3	Aquaculture	93.649	1	144.074	1	50.425	2
4	Oil Terminal	5.160	12	37.283	4	32.123	4
5	Mining	2.844	17	1.057	22	-1.787	19
6	Fish processing	56.913	2	82.094	2	25.181	1
7	Other Food & Drink Processing	2.658	19	0.795	23	-1.863	26
8	Marine Engineering	2.295	22	3.015	17	0.720	17
9	Textiles	1.045	26	3.173	16	2.128	15
10	Other manufacturing	2.447	20	6.050	14	3.603	12
11	Electricity, Gas & water	15.478	8	23.775	7	8.298	7
12	Construction	21.070	6	3.004	18	-18.066	29
13	Wholesale	0.877	27	7.911	10	7.034	8
14	Retail	2.830	18	1.703	20	-1.127	25
15	Accommodation	0.837	28	6.186	12	5.349	11
16	Catering	0.297	31	0.000	31	-0.297	21
17	Ports & Harbours	3.928	16	2.649	19	-1.279	24
18	Sea Transport	11.013	10	0.000	30	-11.013	27
19	Land Transport	6.954	11	23.467	8	16.513	5
20	Air Transport	4.695	13	24.560	6	19.865	6
21	Oil Supply Services	14.748	9	14.449	9	-0.298	9
22	Communications	0.441	30	0.661	24	0.220	18
23	Financial services	30.314	3	32.339	5	2.025	16
24	IT & Real State Services	2.187	23	1.257	21	-0.930	23
25	Technical & Professional Services	2.431	21	4.295	15	1.864	13
26	Public administration	27.179	4	0.000	28	-27.179	30
27	Schools	4.047	14	0.000	29	-4.047	28
28	College	0.508	29	0.445	25	-0.063	20
29	Health	23.401	5	0.000	27	-23.401	31
30	Social work	1.411	24	0.008	26	-1.403	22
31	Other services	4.002	15	6.269	11	2.267	14
	Shetland Totals	365.304		496.369		131.064	
	Rest of Scotland	260.239		166.514		-93.726	
	Rest of United Kingdom	63.089		117.999		54.910	
	Rest of World	41.976		211.856		169.880	

Appendix 5. Expected changes in output and employment in Shetland after Council savings by 2013-14

	Output	Employment	
	(%)	(%)	(FTEs)
Agriculture	-0.3	-0.2	0
Fish Catching	0.0	0.0	0
Aquaculture	0.0	0.0	0
Oil Terminal	-0.3	-0.2	-1
Mining	-1.0	-0.4	0
Fish Processing	0.0	0.0	0
Other Food & Drink Processing	-2.0	-9.6	-5
Marine Engineering	-4.9	-4.9	-22
Textiles	-0.1	-0.1	0
Other Manufacturing	-2.1	-2.1	-3
Electricity, Gas & water	-1.7	-1.7	-1
Construction	-1.1	-1.1	-8
Wholesale	-0.6	-0.6	-1
Retail	-3.0	-3.0	-28
Accommodation	-6.1	-6.1	-16
Catering	-2.5	-2.5	-6
Ports & Harbours	-3.3	-3.3	-2
Sea Transport	-11.6	-11.6	-14
Land Transport	-3.0	-3.0	-7
Air Transport	-1.4	-1.4	-1
Oil Supply Services	-0.7	-0.7	0
Communications	-4.2	-4.2	-8
Financial Services	-0.3	-0.3	0
IT & Real State Services	-5.5	-5.5	-2
Technical & Professional Services	-4.3	-4.3	-9
Public Administration	-13.7	-13.7	-414
Schools	-16.4	-16.4	-75
College	-8.2	-8.2	-12
Health	0.0	0.0	0
Social Work	-15.0	-15.0	-15
Other Personal Services	-4.4	-4.4	-23
Shetland	-3.3	-6.4	-673

**Development Committee****29 May 2013****Economic Development Policy Statement 2012-2017**

Report No: DV019-F

**Report Presented by: Business Development
Project Manager****Economic Development
Development Services Department****1.0 Summary**

- 1.1 The purpose of this report is to present to the Committee the draft Economic Development Policy Statement 2012-2017.

2.0 Decision Required

- 2.1 That the Development Committee RESOLVE to adopt the Economic Development Policy Statement for consultation with industry, community stakeholders and public sector stakeholders.

3.0 Detail

- 3.1 The Economic Development Policy Statement 2012-2017 was produced following work by the Council's Economic Policy Working Group and Economic Development staff to develop a set of policy actions to guide the work of the Economic Development Service for the period of the current Council, and in the context of Council budgets cuts in general and cuts to service budgets specifically. This document will replace the previous policy statement covering the period 2007-2011.
- 3.2 The attached Policy Statement presents the overall aims and objectives of the Economic Development Service for the period 2012-2017, and details specific actions, measures and outcomes, including timescales, through which the service will seek to realise these objectives.

- 3.3 The Policy Statement is placed in a national context through links to the Scottish Government Economic Strategy and the Single Outcome Agreement, and is locally contextualised through links to the SIC Corporate Plan and local industry strategies. The document also details the link from the Policy Statement to the Development Directorate Plan and the Economic Development Service Plan.
- 3.4 The document also provides details on how future review and monitoring of the Policy Statement will be carried out, the principles and guidelines by which the service will operate, and the benefits and impacts the service will seek to accrue to the local economy through application of the described policies.

4.0 Implications

Strategic

- 4.1 Delivery On Corporate Priorities – This document will establish Corporate Priorities with regard to economic development and establish a policy framework for the period of the current Council.
- 4.2 Community /Stakeholder Issues – Consultation with industry will be a key aspect of the consultation process for this document.
- 4.3 Policy And/Or Delegated Authority – The Policy Statement seeks to provide a policy framework by which the Economic Development Service will operate for the period of the current Council, and so will be establishing rather than addressing Council policy.
- 4.4 Risk Management – This document seeks to establish a policy framework for the Economic Development Service and thus provide guidance for how the service will operate for the period of the current Council. Without a defined policy direction the Council risks presenting an inconsistent message to local industry and the wider public on how economic development issues are addressed in a time of reducing budgets. Adopting a policy statement allows the Council to present clear guidance on these issues.
- 4.5 Equalities, Health And Human Rights – None.
- 4.6 Environmental – In order to comply with public policy on the implementation on new schemes, strategies and policies put forward by public agencies, this policy statement will require the production of a scoping report as the first stage of a Strategic Environment Assessment.

Resources

- 4.7 Financial – There are no direct financial implications arising from adopting this Policy Statement. Upon adoption, the Policy Statement will provide guidance for how budgets within the Economic Development Service will be apportioned to best achieve the aims and objectives described.
- 4.8 Legal – None.

4.9 Human Resources – None.

4.10 Assets And Property – None.

5.0 Conclusions

5.1 This report recommends that the attached policy statement be adopted as a consultation document prior to adoption as a formal policy framework for the Economic Development Service.

For further information please contact:
Thomas Coutts, Business Development Project Manager
01595 744 902
thomas.coutts@sic.shetland.gov.uk
17 May 2013

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Appendix I – Economic Development Policy Statement 2012-2017

END

Shetland Islands Council



Economic Development Policy Statement 2012-2017

DRAFT

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1.0 Introduction

- 1.1 This document forms an integral part of Shetland Islands Council's Corporate Plan, which covers the period 2012 to 2017.
- 1.2 The Economic Development Policy Statement will act as the policy framework for the work of the Council's Development Committee and the Economic Development Service. It is expected that policies will be added, amended or deleted in the course of the Council's work so the Economic Development Policy Statement will be updated regularly by the Development Committee to reflect these changes.
- 1.3 An effort is made to link the Council's economic development work to other local and national strategies. Foremost among these is the Scottish Government's Economic Strategy, which is discussed in more detail below, but this document also links to the objectives and actions of the Single Outcome Agreement. The policies detailed within are informed and driven by the Council's Corporate Plan, and in turn inform the Economic Development Service Plan.
- 1.4 The next few years will be a crucial time for Shetland's economy. Although local economic conditions are currently more favourable than elsewhere in the United Kingdom, manifested in low unemployment, high rates of economic activity and an increasing population, the effects of the global economic downturn are evident, notably in the continuing contraction of public services and evidence of reduced demand in certain sectors. Nevertheless, the TOTAL gas plant development will have a significant impact on local businesses and services, as well as the local labour market, for years to come, and developments in oil and gas, renewable energy and decommissioning offer important opportunities. The integration of next-gen broadband will bring economic and social benefits, as well as a demonstration of innovative methods of infrastructure delivery and the implementation/development of new technology.
- 1.5 The promotion of Shetland as a forward-looking place to invest in, as a desirable community to live and work in, and as a place with a reputation for high quality goods and services will continue to be a touchstone for economic development. The development of promotional initiatives and proactive marketing is key to this, as is the continued tailoring of local services to market needs. Through the Business Gateway the service will seek to strengthen the local private and social sector through skills development, business planning and ensuring enterprising activities are efficiently targeting their key markets.
- 1.6 The rest of the document details the key operating principles of the Economic Development Policy Statement, the aims, objectives and targets which the service will seek to deliver over the period of the current Council, and how this links to wider national and local strategies.

2.0 Links to Scottish Government Economic Strategy

- 2.1 Published in 2011, the Scottish Government Economic Strategy advances the Purpose of the Scottish Government, which is:

“...to make Scotland a more successful country, with opportunities for all to flourish, through increasing sustainable economic growth¹.”

- 2.2 To realise this Purpose, the Government Economic Strategy focuses on accelerating economic recovery in the context of challenging global economic conditions, with a range of measures to tackle unemployment and promote employability.

- 2.3 The focus of the Government Economic Strategy is on six Strategic Priorities² to drive sustainable economic growth, detailed below:

Supportive Business Environment

“Our ability to promote prosperity and jobs depends on the performance of our businesses - both large and small....[our] approach will focus our efforts on growth companies, growth markets and growth sectors.”

Transition to a Low Carbon Economy

“...to reflect the excellent opportunity we have to secure investment and jobs from this growing sector and ensure that the benefits of this transformational change are shared across the economy and our communities.”

Learning, Skills and Well-being

“[A] skilled, educated and creative workforce is essential to creating a more competitive and resilient economy. And in the face of the ongoing effects of the recession, it is vital that we develop the skills and employability of Scotland's workforce, and reduce the number of people who are out of work or underemployed - particularly amongst our young people.”

Infrastructure Development and Place

“[We] will harness the strength and quality of Scotland's cities, towns and rural areas and promote the digital economy. Our focus on place is also about improving the overall quality of life in our neighbourhoods.”

Effective Government

“[This] is fundamental to the successful implementation of the Government Economic Strategy, as it is only by the actions of the public sector being fully coordinated and aligned can we maximise Scotland's potential. Central to this will be nurturing and developing the talents and creativity of all our public servants.”

¹ Scottish Government, *The Government Economic Strategy* (13 September 2011), p.8

² Scottish Government, *The Government Economic Strategy* (13 September 2011), p.8-10

Equity

“As well as being a desirable outcome and characteristic of growth, Equity - social, regional, and inter-generational - is also a key driver of growth and jobs. Only by ensuring that everyone has an opportunity to succeed will we fully maximise the nation's potential.”

- 2.4 Delivery of the Purpose and the Strategic Priorities is supported by five Strategic Objectives³, carried over from the 2007 Government Economic Strategy and detailed below:

Wealthier and Fairer - Enable businesses and people across Scotland to increase their wealth and to ensure that more people share fairly in that wealth.

Smarter - Expand opportunities for all Scots to succeed from nurture through to life long learning ensuring higher and more widely shared achievements.

Healthier - Help people to sustain and improve their health, especially in disadvantaged communities, ensuring better, local and faster access to health care.

Safer & Stronger - Help local communities to flourish, becoming stronger, safer places to live, offering improved opportunities and a better quality of life.

Greener - Improve Scotland's natural and built environment and the sustainable use and enjoyment of it and facilitate the transition to a low carbon economy.

- 2.5 The policies and approach detailed in this document are consistent with the purpose, priorities and objectives of the Government Economic Strategy and will contribute to the delivery of sustainable economic growth locally and nationally.

³ Scottish Government, *The Government Economic Strategy* (13 September 2011), p.21

3.0 Links to Single Outcome Agreement

“Effective community planning arrangements will be at the core of public service reform. They will drive the pace of service integration, increase the focus on prevention and secure continuous improvement in public service delivery, in order to achieve better outcomes for communities. Community planning and SOAs will provide the foundation for effective partnership working within which wider reform initiatives, such as the integration of health and adult social care and the establishment of single police and fire services, will happen.”

(Scottish Government/COSLA Statement of Ambition, 15 March 2012)

3.1 Previously the mechanism by which the Scottish Government monitored annual progress on national indicators by public services at local authority level, the Single Outcome Agreement (SOA) has undergone a change of focus. The main priority of the SOA is now to demonstrate how an “integrated approach” i.e. partnership working, between local public agencies delivers significant local outcomes, and how these contribute to National Outcomes.

3.2 Under the new approach, SOAs will⁴:

- Use an evidence based approach, underpinned by disaggregated data, to drive improvement in meeting the differing needs of local populations;
- Include clear performance commitments that will lead to demonstrable improvements in people’s lives;
- Focus upon reducing outcome gaps within populations and between areas – and promote early intervention and preventative approaches in reducing outcome inequalities; and
- Identify priorities for interventions and include plans for prevention, integration and improvement to promote better partnership working and more effective use of resources.

3.3 Community Planning Partnerships (CPPs) are the key monitoring body under which local SOAs sit, and the National Group has agreed that CPPs should have a common focus on key priorities where the aim should be to achieve transformational, not incremental, performance improvement through integrated working. These key priorities are⁵:

- Economic recovery and growth;
- Employment;
- Early years;
- Safer and stronger communities, and reducing offending;
- Health inequalities and physical activity; and

⁴ Scottish Government, *Single Outcome Agreements – Guidance to Community Planning Partnerships* (December 2012), p.2

⁵ Scottish Government, *Single Outcome Agreements – Guidance to Community Planning Partnerships* (December 2012), p.3

- Outcomes for older people.

3.4 In the Shetland Partnership Single Outcome Agreement 2013, economic development, under the 'Wealthier' National Outcome, is addressed by the following Local Outcome:

“Shetland has sustainable economic growth with good employment opportunities and our people have the skills to match, good places to stay and the transport people and businesses need.”

Under this Local Outcome, the SOA contains the following objectives:

- a more diverse business base;
- more resilient and sustainable communities and community enterprises across Shetland;
- sustain high rates of employment.

3.5 These objectives, and the engagement of the Economic Development Service with relevant local agency partnerships which report to the Community Planning Partnership, particularly the Economic Development Partnership and the Skills, Learning and Employability Partnership, are addressed by the policies detailed in this document.

4.0 Links to SIC Corporate Plan

[TO BE ADDED]

5.0 Links to Development Directorate Plan and Economic Development Service Action Plan

Development Directorate Plan

- 5.1 The Development Directorate was formed as a result of the Council organisation and management restructure which took place in 2011. It comprises the functions of community planning and development, economic development, housing, planning, transport planning and further and higher education.
- 5.2 The Development Directorate Plan provides an annual overview of the Directorate's objectives, achievements to date, key performance indicators and risk analysis.
- 5.3 Included in the Directorate Plan are individual Service Action Plans. These encompass activities, outcomes, objectives, actions, targets and resources as well as performance indicators for each service.

Economic Development Service Action Plan

- 5.4 The Economic Development Service Action Plan details the activities, objectives and targets of the service over the coming year, and the resources required to achieve this. It also identifies priority action areas and headline indicators to measure progress.
- 5.5 The Service Action Plan is taken forward in line with the policy aims, objectives and actions which are detailed in this document. There is a clear reporting line from the Policy Statement to the Action Plan.
- 5.6 Each annual Service Action Plan will contain a set of priority activities to direct resources and a set of headline indicators to measure progress. These priority activities and headline indicators are consistent with the actions and measures detailed in this Policy Statement, and will reflect key service area milestones for the year in question.

6.0 Local Strategic Engagement

- 6.1 The following section lists the sectoral strategies through which the Economic Development Service engages with local industry and works in partnership with industry representatives, other public sector agencies and the social and voluntary sector where appropriate to implement economic development priorities.

Successful and Sustainable: A Strategy for Shetland Seafood 2009-2013

“To achieve a competitive advantage we must enhance our own and our visitors’ appreciation and recognition of our seafood products, add value to the product before it leaves Shetland and retain an identity with the product after it leaves our shores. This demands continuous learning about the needs and demands of the market place to ensure appropriate product and market development.”

The Shetland Marketing Strategy

“We must do justice to Shetland’s strengths and keep our promises to our target customers...This depends on our actions in delivering excellent products and providing great experiences.”

The 2011-2014 Shetland Tourism Plan

“Our location away from major population areas means that we will continue to be quite an expensive destination to reach. This alone means that we have to work harder than other places in the UK to attract visitors and convince them that their visit will be worth the money in everything from service quality to things to see and do.”

A Strategy for Sustainable Shetland Agriculture 2012-2016

“The vision set out in the brief for the strategy is, ‘to promote and enhance a diverse, competitive and sustainable agricultural industry in Shetland’. This means the industry not only needs to become more viable and sustainable it also has to become more diverse.”

Renewable Energy Development in Shetland: Strategy and Action Plan

“The partners in this strategy believe that the opportunities for renewable energy development in Shetland offer our community a rare opportunity to reduce our fragility [and] can secure significant community and environmental benefits in addition to the economic benefits which could be created.”

Shetland Skills and Learning Strategy

“This strategy...identifies areas where service providers (such as schools, colleges and training providers) can work differently, to better meet the needs of individuals, employers and communities...[and] sets out how individuals

and employers might better express and plan what skills and learning they need to put in place to meet current and future skills needs.”

On the Cusp...Shetland's Cultural Strategy 2009-2013

“Culture...largely defines the identity of a place and its people and it promotes personal growth and community cohesion. A vibrant and distinctive culture is also a hugely important economic asset.”

Shetland LEADER Business Plan 2007-2013

“[The] LEADER Business Plan was produced to fit within the generic Rural Development Strategy for Shetland (RDSS) to be adopted by the main agencies and the Community Planning Board (CPB)...It should be read in conjunction with the Rural Development Strategy for Shetland. It also fits under the Scottish Rural Development Strategy (SRDS) and is complementary to other actions in rural development in Shetland.”

Shetland's Local Housing Strategy 2011-2016

“Work in partnership to enable everyone in Shetland to have access to...[a] choice of affordable housing options across all tenures that are warm and safe, energy efficient and in keeping with the Shetland environment, of good quality and in good repair, able to meet demand and the particular needs of households in inclusive and vibrant communities.”

Shetland Local Development Plan

[To Be Added]

Shetland Transport Strategy

“The vision of ZetTrans is...to develop an effective, efficient, safe and reliable transport system for Shetland. The transport system will comprise an integrated network of accessible, and affordable internal, inter-island and external links, which will contribute to the development of a safe, healthy, vibrant and inclusive society; a diverse, successful and self-sufficient economy, and enhanced environmental quality.”

Shetland Islands Council Economic Development Policy Statement 2012-2017

“Enabling our communities to develop their potential.”

Aim

To improve the economic well-being of Shetland by promoting an environment in which newer industries develop alongside thriving traditional industries.

Objectives

1. Link skills and knowledge development to economic need
2. Develop more economically healthy communities and a more diverse business base, through encouraging innovation and sustainable growth
3. Encourage research and adoption of enabling technologies and infrastructure
4. Develop local control and management of resources
5. Improve the reputation of Shetland as an attractive place to live, work, study, visit and invest.

Obj. Ref.	Action	Measure	Outcome	Timescales
1.1	Through the Business Gateway encourage new business start-ups and improve existing businesses	<p>Provide information, advice and guidance to those starting new businesses in Shetland</p> <p>Provide business planning advice to those looking to develop existing local businesses</p> <p>Develop business skills among the local community through advice and training</p> <p>Through monitoring and evaluation, refine Business Gateway to be more effective for SMEs</p>	<ul style="list-style-type: none"> • Provide support to 20 new start-ups through the Business Gateway • Provide advice to 20 existing businesses looking to expand or develop • Support 100 clients through the Business Gateway • Provide 100 clients with access to Business Gateway training courses • Produce annual report on Business Gateway incorporating client feedback and service review 	<p>Annual</p> <p>Annual</p> <p>Annual</p> <p>Annual</p> <p>Annual</p>
1.2	Provide up-to-date monitoring of the Shetland economy through survey and research work	Develop, undertake and report on survey work carried out which deliver detailed and up-to-date information on the Shetland economy	<ul style="list-style-type: none"> • Complete the Shetland Employment Survey 2014 • Complete the Shetland Visitor Survey 2012/13 • Report on the Shetland Regional Accounts/Input-Output Survey 2011 • Complete Shetland In Statistics 2014 	<p>2014</p> <p>2013</p> <p>2013</p> <p>2014</p>

Obj. Ref.	Action	Measure	Outcome	Timescales
1.3	Provide a high quality marine research and training facility	Support NAFC through core funding arrangements and periodically review the structure and targets to ensure service delivery meets industry needs.		
1.4	Improve economic knowledge sharing with the commercial sector in Shetland	Set up a network of engagement with local industry	<ul style="list-style-type: none"> • Bring scarcer public support measures into line with new economic development opportunities • Identify two research projects with commercial potential • Encourage the commercial sector in Shetland towards integrated working along the lines of a Chamber of Commerce • Establish a working register of Shetland trades, products and services to supply large-scale developments. 	2014 Annual 2016
1.5	Understand the Business requirement in Shetland for particular skills	Devise a system for businesses to register needs for specific skills Assess the training capacity to provide necessary courses	<ul style="list-style-type: none"> • Reduce the skills deficit by 30% by 2017 	

Obj. Ref.	Action	Measure	Outcome	Timescales
2.1	Encourage sustainable growth in the local economy through support for business development and social enterprises.	<p>Support 14 projects in local wealth creating sectors (seafood, tourism, creative industries, agriculture, etc.) which deliver on one or more of the following key economic outcomes:</p> <ul style="list-style-type: none"> • Improved product quality • Import substitution • New market development • Improved productivity • Improved service delivery • Introduce new or improved manufacturing processes • Introduce new business activity to Shetland <p>Provide new and manage existing commercial investments which support economic development objectives.</p>	<ul style="list-style-type: none"> • 4 seafood-related projects supported • 2 food and drink-related projects supported • 3 projects supported which improve visitor services and facilities • 3 projects supported in the creative sector • 2 projects supported which introduce new business activity to Shetland • Identify best mechanism for future commercial investment and holding structure for existing investment portfolio (including Quota) • Manage and regularly report on the existing portfolio of 80+ commercial investments • Investigate and conclude the merits of a state aid scheme for commercial investments in the fisheries sector 	<p>Annual</p> <p>2013</p> <p>Annual</p> <p>2013/14</p>

Obj. Ref.	Action	Measure	Outcome	Timescales
2.2	Support communities and individuals to engage in economic activity and/or reduce the effects of peripherality	Support economic activity in local communities through the development of childcare, local services and providing assistance for community regeneration projects.	<ul style="list-style-type: none"> • Support 3 new childminders through the Financial Services for Childminders Scheme • Support 5 projects under the Rural Shops Improvement Scheme • Support 2 communities to implement local development plans • Support 2 social enterprises to develop business skills through Business Gateway 	Annual
3.1	Provide high speed Digital Broadband in Shetland	<p>Review effectiveness of Shetland Telecoms project prior to preparation of new Action Plan and ensure complementarity with BDUK project.</p> <p>Achieve full integration of superfast cable.</p> <p>Establish an operational point-of-presence and one next generation project</p>	<ul style="list-style-type: none"> • Infrastructure and operational plans approved • High-speed broadband service available in South and Central Shetland Mainland. • Pilot 'Next Gen' project completed 	<p>2013</p> <p>2017</p> <p>2013</p>
3.2	Support research and development projects which encourage innovation and growth in the private sector	Provide support to research and development projects which will introduce new methods of production, improve productivity or quality, or introduce new processes to the local private sector	<ul style="list-style-type: none"> • 2 industry-led research and development projects supported 	Annual

Obj. Ref.	Action	Measure	Outcome	Timescales
4.1	Contribute to local policies on renewable energy development	<p>Develop and implement Renewable Energy Action Plan 2013-20 to guide activity and investment</p> <p>Develop Community Benefit Policy for local renewable energy development</p>	<ul style="list-style-type: none"> • Approved Action Plan in place. • Approved Policy in place 	<p>2013</p> <p>2013</p>
4.2	Support research and development projects in renewable energy across the isles, in homes, businesses and community organisations	<p>Support 6 community-scale renewable energy projects through commercial investment and grant assistance</p> <p>Develop projects which utilise increased renewable energy connections to the local grid through the NINES project</p> <p>Reduce dependence on imported fossil fuels through increasing local installed renewable energy capacity</p>	<ul style="list-style-type: none"> • 2 renewable energy projects in the marine environment supported • 4 terrestrial renewable energy projects supported • Increase local installed capacity of renewable energy. 	<p>Annual</p> <p>Annual</p> <p>2015</p>
4.3	Maximise benefit from Council participation in regional and EU networks.	Promote representation on relevant national and European committees and take opportunities to engage	<ul style="list-style-type: none"> • Continued engagement at officer and political level on national and EU networks. In particular: <ul style="list-style-type: none"> • Commission for Peripheral Maritime Regions; • Convention of Scottish Local Authorities; • Council of European Municipal Region Policy Committee; • Highlands & Islands Convenors Group; • Highlands & Islands European Partnership; • Highlands and Islands European Partnership Board. 	Ongoing

Obj. Ref.	Action	Measure	Outcome	Timescales
4.4	Support community and commercial projects through local delivery of national, regional and EU funding programmes	<p>Delivery of Shetland LEADER Programme 2007-2013 and European Fisheries Fund Axis IV</p> <p>Ensure local input into regional funding decisions via agency representation on assessment and management committees</p> <p>Attract funding from national and European programmes to support local development projects</p>	<ul style="list-style-type: none"> • Deliver £2.3m of LEADER support and £0.3m of Axis IV support as match funding for local development projects • Complete strategy and Business Plan for LEADER Programme 2014-20 • Maintain presence on assessment committees for the European Fisheries Fund and Scottish Rural Development Programme • Investigate potential national, regional and EU funding sources (e.g. Interreg, ERDF) for relevant projects and develop applications 	<p>2013</p> <p>2014</p> <p>Ongoing</p> <p>Ongoing</p>
4.5	Maintain and improve quality and sustainability management systems in key sectors through partnership arrangements with key delivery partners	<p>Seek approval of a state aid scheme for quality control measures</p> <p>Ensure sustainability and management of inshore shellfish stocks</p>	<ul style="list-style-type: none"> • Gain state aid approved scheme and provide funding to Shetland Seafood Quality Control • Support the Shetland Regulating Order through the provision of funding to Shetland Shellfish Management Organisation via a Service Level Agreement 	<p>Ongoing</p> <p>Ongoing</p>

Obj. Ref.	Action	Measure	Outcome	Timescales
4.6	Increase local benefit from developments in energy sector, and develop workforce and infrastructure for future developments	<p>Hold regular meetings with gas plant companies to develop local supply chain and discuss issues relating to local skills development.</p> <p>Research and communicate supply chain information relating to larger scale developments in Shetland</p> <p>Diversify Scalloway and Sullom Voe harbour areas to encourage further economic developments</p>	<ul style="list-style-type: none"> • Up-to-date reports from gas plant project management on employment and recruitment issues • Create and maintain targeted business register • Communicate business register to interested parties engaged in industrial developments • Contribute to action plans for Scalloway and Sullom Voe to introduce new business to the harbour areas and increase benefits from existing usage 	Quarterly
4.7	Maximise the benefit from local control of resources	<p>Support lobbying efforts on management of local resources</p> <p>Engage with consultation on draft Regional Aid Guidelines 2014-2020</p>	<ul style="list-style-type: none"> • Provide information, as required, to enable lobbying to be carried out by Council representatives and other stakeholders • Protect Shetland's Regional Aid status 	<p>Annual</p> <p>2013</p>
5.1	Raise Shetland's external profile as a place to live, visit, work, study and do business.	Prepare tender and award Promote Shetland contract for promotional services	<ul style="list-style-type: none"> • Increase number of businesses and people visiting and relocating to Shetland • Increase positive national media coverage of Shetland • Increase local inward investment from businesses located outwith Shetland 	Ongoing

Obj. Ref.	Action	Measure	Outcome	Timescales
5.2	Encourage the marketing of local businesses outside of Shetland and support projects which improve the reputation of Shetland as a location for high quality products and services	Support projects which develop new marketing initiatives and campaigns which attract business from outside Shetland	<ul style="list-style-type: none"> 6 projects supported under the Marketing Development Programme 	Annual
5.3	Improve services and information available to tourist visitors	Maintain and develop a cost effective local visitor information service throughout Shetland	<ul style="list-style-type: none"> 12 Visitor Information Points in rural locations 9 rural visitor attractions open by appointment during April and October 	Annual
5.4	Increase the economic impact of the local creative sector through improved co-ordination between relevant agencies	In partnership with local stakeholders, prepare an action plan and strategy to develop the local arts and culture sector in the context of current economic conditions	<ul style="list-style-type: none"> Shetland Arts and Culture Strategy and Action Plan, including key milestones and a clear implementation process 	Dec 2014

9.0 Review and Monitoring Procedure

- 9.1 This set of policies will be subject to annual review by the Economic Development Service and the Development Committee to monitor progress on approved outcomes and ensure that all measures, actions and outcomes are up-to-date, achievable and relevant in the context of the Council's economic priorities.
- 9.2 During review of the policy statement, it is expected that the Service will produce up-to-date information on achievement of outcomes, and that actions and measures which have been achieved and are not recurring will be updated or removed from the policy statement. Similarly, new actions or measures which arise from policy decisions from the Council may be added into the statement at this point.
- 9.3 The review procedure will be scheduled to take place in November of each year, and will be timetabled to conclude in February of the following year, after which the Service Action Plan will be drafted reflecting updates and revisions to the Policy Statement.

The following personnel will be involved in the review of the Policy Statement:

- Chair – Development Committee
- Vice Chair – Development Committee
- Director – Development Services
- Executive Manager – Economic Development
- Economic Development staff as deemed appropriate

Staff from other services may be consulted on this review process where this is deemed necessary and appropriate. The review will conclude with a seminar involving the members of the Development Committee, in addition to the above staff and elected members.

- 9.4 The first review of this Policy Statement will be scheduled to take place in November 2013.

10.0 Operating Principles and Guidelines

10.1 Social Inclusion

The Council is committed to upholding people's rights, to promoting social inclusion, to protecting the vulnerable and the disadvantaged and to ensuring that all citizens have equal opportunity to fulfil their potential. The Council aims to promote an inclusive society which values diversity and works to secure and protect the rights of all the people of Shetland by combating disadvantage, discrimination, risk, exploitation and abuse.

10.2 Sustainable Development

In all aspects of economic development work the Council will endeavour to find sustainable solutions for economic development. Sustainable development is defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

10.3 Evidence of Need

Council investment in economic development projects should lead to the creation or improvement of a process, service or product that could not have happened without the Council's assistance. Funds will only be awarded to projects that cannot proceed without assistance, and all applicants for financial assistance must be able to provide evidence of need for Council funds.

10.4 The Role of Development Agencies

While the ongoing efforts of all organisations participating in economic development are important, the future success of the economy depends on the businesses and workers making a living in Shetland. Development agencies have a role in facilitating and supporting economic development and working in partnership with businesses to achieve prosperity.

10.5 Financial Duty of Care

The Council has a duty of care to the public purse in terms of maximising the productive use of public funds for economic development activity. In this regard the Council has a duty to thoroughly examine and make informed judgements on the viability of projects being considered, the need for public assistance, the probability of changes in the environment that projects will operate in and any potential negative impacts which may arise from the awarding of Council assistance, such as impacts on local competition.

10.6 State Aid Compliance

The Council must comply with State Aid regulations which govern the investment of public money in private enterprise.

10.7 Promoting Independent Working

The Council will seek to ensure the financial independence of businesses and organisations that benefit from public assistance. In particular there is a need to avoid situations where dependencies can arise.

10.8 Transparency

The availability of services, eligibility for services and the process of applying for and approval of services will be made clear to all potential applicants. The details of all awards of financial assistance to applicants will be published in the local media.

10.9 Consideration of Applications for Financial Assistance

1. Assistance will only be approved when an application meets the Council's economic development policies as specified in this document or can be processed under a specifically approved assistance scheme.
2. Funding shall not be approved on any spending committed by an applicant for assistance before the Council takes a decision on that application.
3. Assistance shall not be approved to rescue businesses that are failing or have failed.
4. Grant assistance is not available for the purchase of businesses, buildings or land which have been placed on the open commercial market. This is because such approvals can interfere with the market and may lead to an unfair advantage being given to an applicant.
5. In general, assistance is not available for projects/businesses that are in direct competition with existing businesses serving the Shetland market as such assistance is likely to lead to unfair competition. However, in circumstances where specific assistance schemes exist for that type of business or when the applicant business is operating in a remote area/outer island, grant assistance may be considered after careful examination of the project details.
6. Assistance is only available for commercial ventures and initiatives. This policy does not apply to projects that may not be commercial in themselves but which aim to serve commercial sectors. Projects which aim to address community regeneration through creating the conditions for new commercial activity or aim to serve commercial sectors through infrastructure development, but which are not in and of themselves commercial, may be considered.
7. Applicants for financial assistance must be able to demonstrate that projects/initiatives for which assistance is sought have been subjected

to sound business planning processes, and any assumptions made, such as financial projections, are reasonable.

8. All applicants for financial assistance must demonstrate how their projects contribute to the benefits and impacts which are measured by the Economic Development Service (see section 11.0).

11.0 Project Benefits and Impacts

11.1 In order to measure the potential benefits that projects seeking financial assistance will accrue to the local economy, applicants must provide details of certain measures and impacts which their project will generate. These take the form of measurable benefits (jobs, turnover, new business start-ups, etc.) and non-measurable benefits (environmental improvements, impact on Shetland Brand, etc.). These benefits and impacts are detailed below:

11.2 Measureable Benefits and Impacts

- Jobs created by project
- Jobs maintained by project
- Annual sales generated by project
- Annual sales maintained by project
- Is the project a new product or service?
- Will the project result in improved products or services?
- Will the project be trading in a new market?
- Will the project improve productivity?
- Will the project reduce costs?
- Is the business a new business start-up?
- How much inward investment will the project bring to Shetland?
- Will the project result in an increase in exports?
- Will the project result in less imports into Shetland?

11.3 Non-Measurable Benefits

- Will the project impact on the Shetland Brand?
- Will the project result in improved environmental conditions?
- Will the project results in development in a remote area?
- Will the project result in skills development?

- 11.4 Applicants for assistance who cannot demonstrate that their projects will generate economic benefits and impacts will not be considered for financial assistance.
- 11.5 Applications for financial assistance will be subject to scrutiny to ensure that the delivery of specified benefits and impacts is realistic, achievable, consistent with the means available to the applicant and sustainable beyond the period of Council assistance.
- 11.6 While this list of benefits and impacts are the priority areas of improvement in the local economy, it is not exhaustive, and projects which can demonstrate significant economic benefits not included on this list may be considered.

**Development Committee****29 May 2013****Remaining Grants to the Agricultural Sector**

Report No: DV016-F

Report Presented by: Project Manager**Economic Development
Development Services Department****1.0 Summary**

- 1.1 The purpose of this report is to seek the Development Committee's approval for the removal of the remaining grants supporting the agricultural sector in Shetland.

2.0 Decision Required

- 2.1 That the Development Committee recommend that the Council RESOLVE to approve the cessation of the remaining historic grant streams payable to the agricultural sector. These are support grants to the Scottish Crofting Foundation (Shetland branch); the Shetland Flockbook Trust; the Shetland Cattle Herdbook Society; the Pony Breeders of Shetland Association; and the Council-operated Agricultural Contractors Scheme and AI Scheme. Cumulatively, these have represented an annual budget commitment of £35,350.

3.0 Detail**3.1 Historic operational support grants**

- 3.1.1 Under the auspices of the Economic Development agricultural budgets, a number of local organisations have historically received annual grants in support of their respective activities. Those extant in recent years were the Scottish Crofting Foundation (Shetland branch); the Shetland Flockbook Trust; the Shetland Cattle Herdbook Society; and the Pony Breeders of Shetland Association.
- 3.1.2 In the main, these grants were used by these organisations to support their work promoting their local members' interests within and outwith Shetland; concerning their respective breeds of livestock or, in the case of the local branch of the SCF, the interests of crofters as a whole in Shetland.

The sums involved were relatively modest; in the past financial year, the following sums were approved, and actually drawn down from those approvals by each organisation.

Organisation name	Grant approved	Actual spend
SCF (Shetland Area)	£6,650	£5,120.75
Shetland Flockbook Trust	£1,000	£731.10
Shetland Cattle Herdbook Society	£3,700	£2,416.23
Pony Breeders of Shetland Association	£1,000	£227.67

- 3.1.3 In the light of the Council's adoption in 2012 of a Medium Term Financial Plan that emphasised funding for core activities and reduced funding for activities such as support for the business and voluntary sectors; and the then proposed (and subsequently adopted) reduction of the Economic Development budget by some 66%, those bodies receiving these historic operational support grants were written to in early October 2012. (An example of this letter is included in Appendix 1). They were advised that these grants would be stopping, and that in common with many other organisations that had received support from the Council their organisations would have to become self-funding or find other funding sources.
- 3.1.4 Two organisations responded to the invitation to contact Development Services staff – the Shetland Flockbook Trust and the Pony Breeders of Shetland Association (see Appendix 2).
- 3.1.5 Subsequently, at the Development Committee on 14 November 2012 it was decided that at least until the Council's finances had been stabilised the two main Council-operated agricultural grant schemes (the Shetland Agricultural Business Scheme, and the Shetland Rural Development Scheme) should be stopped at the end of the 2012/13 financial year. Committee Members noted that the agricultural industry in Shetland already received some £9m of external subsidies every year, and considered that the Council assistance was therefore not critical at this stage.
- 3.1.6 In light of this decision and the economic climate in which it was made, it is consistent that the modest annual historic operational support grants should also be stopped, and these organisations have not applied for assistance in the current 2013/14 financial year.

3.2 The Agricultural Contractors Scheme

- 3.2.1 This scheme has operated for a great many years; the rationale for it being that by supporting the provision of an agricultural contracting service in the isles individual farmers and crofters would have access to contracting services and would be less likely to invest personally in expensive machinery.

- 3.2.2 Initially the Scheme had an annual budget of £30,000; in the past 3 financial years this has been reduced to £20,000. Actual uptake of the Scheme varies from year to year.

Financial year	Original budget	Actual spend
2008/09	£30,000	£34,024
2009/10	£30,000	£4,650
2010/11	£20,000	£7,250
2011/12	£20,000	£19,344
2012/13	£20,000	£6,081
<i>Average</i>	<i>£24,000</i>	<i>£14,270</i>

- 3.2.3 Once again, in light of the decision to remove the main grant funding support streams to agriculture (see 3.1.5 above) and the economic climate in which it was made, it is consistent that the Agricultural Contractors Scheme should also be stopped; there is no budgetary provision made for this scheme in the 2013/14 financial year.

3.3 The AI Scheme

- 3.3.1 This scheme has also existed for a number of years, albeit in a state of some decline latterly. There has for the past few years been only one recipient of grant assistance to subsidise the costs of providing an artificial insemination service for cattle owners in Shetland. With an annual budget of £3,000, in the past 5 years the average annual grant awarded has been £1,442.

Financial year	Original budget	Actual spend
2008/09	£3,000	£1,158
2009/10	£3,000	£1,625
2010/11	£3,000	£1,747
2011/12	£3,000	£1,654
2012/13	£3,000	£1,028
<i>Average</i>	<i>£3,000</i>	<i>£1,442</i>

- 3.3.2 Once again, in light of the decision to remove the main grant funding support streams to agriculture (see 3.1.6 above) and the economic climate in which it was made, it is consistent that the AI Scheme should also be stopped; there is no budgetary provision made for this scheme in the 2013/14 financial year.

4.0 Implications

Strategic

- 4.1 Delivery On Corporate Priorities – The recommendation contained in this report aims to continue to achieve outcomes in the Council's Single Outcome Agreement with the Scottish Government as follows:

- Increase sustainable economic growth;
- Improve productivity.

4.2 Community /Stakeholder Issues – The proposal to reduce Council funding to the agricultural industry was discussed at a meeting of the Policy Group (Agriculture) on 2 October 2012 at which both Council Members and industry representatives were present, and while the initial proposal and the subsequent removal of the Shetland Rural Development and Agricultural Business Schemes were understandably not warmly welcomed there has been no subsequent negative feedback from the industry.

4.3 Policy And/Or Delegated Authority – This report has been prepared in line with the following Agriculture policies contained in the Council's Economic Development Policy Statement.

8. Shift the emphasis of the agriculture industry in Shetland to a market-led economy which is less reliant on EU and UK subsidy payments.

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

The Development Committee has delegated authority to implement decisions within its remit, in accordance with Section 2.3.1 of the Council's Scheme of Administration and Delegations. However, the decision to cease any scheme would rest with the Council.

4.4 Risk Management – Two of the existing recipients of the historic support schemes have reported that there is a risk of their activities being curtailed (and hence the objectives of their respective organisations not being met) if they do not continue to receive funding from the Council (see Appendix 2). These are the Shetland Flockbook Trust and the Pony Breeders of Shetland Association. Given the relatively small sums involved, and the proven ability of many other groups in Shetland to undertake modest annual fund-raising for their activities, this risk is deemed to be small.

Failure to reduce the net ongoing running costs of the Council carries a significant risk of the Council's financial policies not being adhered to and will require a further draw on reserves.

4.5 Equalities, Health And Human Rights – none.

4.6 Environmental – none.

Resources

4.7 Financial – Removal of the historic support grants in question accounted for £12,350 of budgetary commitment in the past financial year; the Agricultural Contractors Scheme a further £20,000; and the AI Scheme £3,000. Whilst not typically completely drawn down, the past financial year was typical in that combined they amounted to approximately £15,500 of actual spend.

The approved budget for Operational Support Grants, The Agricultural Contractors Scheme and The AI Scheme have been removed from 2013/14 with the exception of £25,000 carry forward from 2012/13 which relates to committed spend. This approved budget adheres to the Medium Term Financial Plan, which seeks to maintain reserves at £125 million by 2017/18. Failure to approve the savings within this report will result in an additional draw on reserves, until such time as an alternative saving is identified.

4.8 Legal – none.

4.9 Human Resources – none.

4.10 Assets And Property – none.

5.0 Conclusions

5.1 The historic support grants paid to the Shetland branch of the Scottish Crofting Foundation; the Shetland Cattle Herdbook Society; the Shetland Flockbook Trust; the Pony Breeders of Shetland Association; and under the auspices of the Agricultural Contractors and AI Schemes became something of an anachronism in the light of the Development Committee's decision in November 2012 to henceforth cease the Shetland Agricultural Business Scheme and the Shetland Rural Development Scheme.

5.2 It is consistent therefore with that decision that these remaining development payments in support of agriculture also ended at the end of the 2012/13 financial year. Recipients of the support grants were informed of this impending action in October 2012, and while there was some limited opposition to this, the sums involved are relatively small, and not outwith the abilities of the organisations in question to raise from within their memberships, or by their own fundraising endeavours.

For further information please contact:

Jon Dunn

01595 744951 jon.dunn@shetland.gov.uk

16 May 2013

List of Appendices

- 1 Letter from Head of Development to historic support grant recipients
- 2 Correspondence from historic support grant recipients

Background documents

None.

END

Strategic Director - Development: Neil Grant
Chief Executive: Alistair Buchan

Development Services Department
Solarhus
3 North Ness Business Park
Lerwick
Shetland
ZE1 0LZ
Telephone: 01595 744940
Fax: 01595 744961
development@shetland.gov.uk
www.shetland.gov.uk

If calling please ask for:
Douglas Irvine
Direct Dial: 01595 744932
Email:

Your Ref:
Our Ref: PS-DI

Date: 4 October 2012

Dear

Grant Assistance to Business and Voluntary Sectors

I am writing to provide you with information on how the Council's decision to implement significant savings in Development Services will affect future support to your organisation.

The Council has adopted a Medium Term Financial Plan that emphasises funding for core activities such as Education, Care Services and Transportation, and reduces the funding available for activities such as support for the business and voluntary sectors. These cuts will come into effect from 1 April 2013. At present staff in Development Services are working out what funding remains available but it seems clear that grants for running costs will be generally curtailed, at least until the Council has achieved financial stability.

What you need to do is make sure that your management committee is aware of this situation and then plan for how you can run your organisation without Council support. You should discuss your particular circumstances with your grant contact in Development Services to make them fully aware of the implications for your organisation if no Council support is available for running costs. Council managers need to have this information as the budget setting for the next financial year gets underway. I have to stress that the times have changed and most organisations that were supported by the Council will have to become self-funding or find access to other funding sources, or a combination of both these alternatives for Council support.

I regret having to advise you of the Council's decision in this fashion but I am sure that you will understand the need for the Council to concentrate its resources on its core services.

Yours sincerely

Director of Development Services

Irvine Douglas@Development

From: JAMES NICOLSON
Sent: 28 October 2012 21:45
To: Irvine Douglas@Development
Subject: Grant assistance

Hi Douglas

Shetland Flock Book Trust

I have read your letter and have discussed with some of our committee members.

We do appreciate the circumstances in which the council finds itself and recognise that there is a need to make savings. However, it may not be appropriate for there to be across the board cuts in every area.

As far as the normal running of Shetland Flock Book Trust is concerned, this is achieved entirely from funds raised by the Trust through annual memberships.

What is additional and for which we normally request financial support, however, is in relation to attendance at the Royal Highland Show.

We have over some years received financial support on a 50% basis to assist us with costs such as transportation of animals, accommodation for persons manning the stand and entry fees.

The Council's contribution has in recent years generally been less than £800 per year with the balance being paid by the Flock Book Trust.

I should point out that no payment other than accommodation and transport is made to those who give of their time to spend part of a day setting up the stand and the following 4 days manning the stand at the RHS. Ferry fares only are paid with those with Ferry vouchers using them to further reduce costs.

It is important to emphasise that the Shetland Flock Book Trust as the only sheep breed society in Shetland is the only organisation entitled to a stand in the National Sheep Association marquee at the RHS.

However, it has never been and is not the case that we only market Shetland sheep - we recognise that we have a responsibility to market ALL sheep from Shetland.

We keep a record of contacts made at the RHS which we share with SLMG and Aberdeen and Northern Marts.

There is no doubt that prices of sheep from Shetland have been boosted over the years through purchases made by persons with whom first contacts have been made at the Shetland sheep stand at the Highland Show.

With increasing costs, Shetland Flock Book Trust's contribution towards attendance at the RHS now amounts to significantly more than 50% of our annual income so it would not be economically viable for our continued participation without grant assistance. At one time the Shetland Cheviot Society contributed to attendance at the Highland but that organisation is now virtually moribund with little funds.

We have a particular concern that if Shetland Flock Book Trust is unable to attend the Highland Show, the UK based Shetland Sheep Society would be only too happy to step into the breach. They would be undoubtedly market Shetland sheep - but it would be their own sheep with no benefit accruing to Shetland.

As stated at the beginning of this letter, we do recognise that some savings have to be made. But we do believe that the relatively small amount contributed by the Council to assist us in the marketing of sheep from Shetland should have a high priority. I was happy to support the Animal Health Scheme as a high priority at a meeting last month. But it is important not just to have the scheme but also to ensure wide awareness of the scheme and its benefits. We have been willing to display Animal Health Scheme posters and literature on our stands.

I do hope that consideration will be given to continued support for the marketing of sheep from Shetland by enabling Shetland Flock Book Trust to continue to provide a stand at the Royal Highland Show.

RF 332



Chairperson: Roselyn Fraser
32 Gardentown
Whalsay
Shetland
ZE2 9AB
Roselyn.fraser@btinternet.com
(01806) 566479

Secretary: Carole Laignel
Habbigarth
Dunrossness
Shetland
ZE2 9JG
caroleogue@hotmail.co.uk
(01950) 460570

16 October 2012

Mr Douglas Irvine
Shetland Islands Council
Development Services Department
Solarhus
3 North Ness Business Park
Lerwick
Shetland
ZE1 0LZ

Dear Mr Irvine

Grant Assistance to Business and Voluntary Sectors

Thank you for your letter dated 4 October 2012.

The PBSA is a voluntary group which endeavours to promote and protect the Shetland pony as we believe it is an extremely important, iconic part of our heritage and identity. Our application for funding is to assist with the travel expenses of Shetland's three, Shetland Pony Stud-Book Society Council Directors, who attend the four annual Directors' meetings at Shetland House in Perth.

The Shetland Directors ensure that the Shetland pony has Shetland based representation in the Shetland Pony Stud-Book Society, at both national and international level. Following a change to the Constitution of the Shetland Pony Stud-Book Society, as instructed by OSCR, Shetland's representation on the Stud-Book council has been reduced from six members to three. This being the case, it is imperative that the three Shetland members are able to travel to the meetings to maintain an input into decision making for the Society.

If the Pony Breeders of Shetland Association cannot continue to send representatives to the Stud-book Council meetings, we risk losing our three seats on Council and therefore lose any input into important decisions which affect the Shetland pony breed.

The continuation of the Stud-Book Society, which is over 100 years old, and fulfilling its aims as laid down in its constitution demonstrates that we are endeavouring to protect the heritage and future of the breed at both national and international level.

We have discussed the contents of your letter with key members of our management committee. As previously stated, the annual grant we receive, assists the three individuals nominated by our Association, to attend four meetings per year representing Shetland at the General Council in Perth. The aim of the grant is to ensure the home of the Shetland Pony breed has a voice at this Council and thereby protect and enhance a vital part of Shetland heritage and helps to defray the considerable cost of travel and accommodation for these individuals.

22 OCT 2012
ECONOMIC DEV UNIT

Previously it was agreed by the association, that the individuals would pay 25 % of the cost out of their own pockets and the SIC grant funds 70% of the balance (52.5%), leaving PBSA to fund 30% of the balance (22.5%). The grant awarded has been capped at £1,000 and generally much less than this is claimed. This is due to individuals struggling to make all four meetings due to family and work commitments.

In the future the PBSA has decided to reimburse 100% of travel and accommodation costs to the three directors. This decision has been taken because it was felt that in these straightened times, when people are already giving their time voluntarily and, in many cases, using up several days of their holidays it is difficult to expect people to also pay towards their travel costs.

We have submitted our latest application which covers the period November 2012 to July 2013 and hope that given the above you can authorise approval of the grant award for that period - the amount paid by the SIC for 2011/12 was only £468.91.

We passionately hope that from April 2013 this grant award, for something of such importance to Shetland's heritage, can be continued.

Yours sincerely



Carole Laignel
Secretary PBSA



**Development Committee****29 May 2013****Shetland Local Development Plan – Proposed Plan****Report Number : PL-06-13-F****Report Presented By: Team Leader -
Development Plans and Heritage****Development Services Department /
Planning****1.0 Summary**

- 1.1 This report is an update on the Shetland Local Development Plan (LDP) and representations received to the Council's settled view. It also updates on Supplementary Guidance (SG).

2.0 Decision Required

- 2.1 That the Development Committee RESOLVE to:
- a) Confirm the work being undertaken relating to the consultation responses received on Supplementary Guidance, based on the information presented

3.0 Detail

- 3.1 The Shetland LDP will replace the adopted Shetland Structure and Local Plans (2001 and 2004).
- 3.2 The main statutory stages in the preparation and delivery of the Shetland Local Development Plan are:
- Publication of the Development Plan Scheme
 - Main Issues Report and draft Environmental Report consultation.
 - Prepare and Publish the Proposed Plan, alongside the Strategic Environmental Assessment and other impact assessments
 - **Consider and respond to representations to the Plan**
 - Submission of Plan to Scottish Ministers
 - Examination
 - Adoption of the Shetland Local Development Plan, Environmental Report and Action Programme
 - Implementation, Monitoring and Review

- 3.3 This report forms part of the formal stage highlighted in bold in the list above.
- 3.4 Scottish Planning Policy sets the broad principles that should underpin a genuinely plan-led modernised system. Development plans should be succinct and set out ambitious long term visions for their areas. They should be kept up to date and provide a practical framework to enable the determination of planning applications with a degree of certainty and efficiency. All interests should be engaged as early and as fully as possible, and there should be a clear focus on high quality outcomes. The primary responsibility for operating the development planning system lies with planning authorities.
- 3.5 One of the main thrusts of the Scottish Government's Modernising Planning priority, which flows from the Planning etc (Scotland) Act 2006, was to establish a plan-led system where national, strategic and local plans clearly set out development priorities and guide individual planning decisions. The National Planning Framework sets out national priorities for development planning and provides the context for regional and local developments. 4 strategic plans and 34 local development plans will replace structure and local plans and these should be updated every 5 years. These new plans are mandatory and set out the priorities for development at the regional and local levels.
- 3.6 The Shetland LDP has been compiled following, and in response to, the representations received on the Main Issues Report (MIR) and the call for development sites. Both of these stages involved extensive consultation, including numerous workshops, drop-in sessions, a media campaign and extensive engagement with statutory and other bodies. We have also worked closely with the planners in the Scottish Government Built Environment Directorate so as to ensure that our process, consultations, strategies and planning policies comply with statutory processes and national policies.
- 3.7 The Shetland LDP includes the Vision and Spatial Strategy, which were approved at the meeting of the Development Committee on 9 March 2012 (Minute Ref: 23/12), and Members approved the plan as the planning authority's settled view at the Council meeting on 10 October 2012 (Minute Ref: 96/12). It was then subject to a period for representations that closed on 13 December 2012.
- 3.8 Representations by stakeholders and the general public should be concise (no more than 2,000 words plus any limited supporting productions), but should fully explain the issues that people wish to be considered at the examination. There is no automatic opportunity for parties to expand on their representation later in the process.
- 3.9 Following the close of the period for representations on the Proposed Plan, planning authorities may make modifications, but only so as to take account of representations, consultation responses or minor drafting and technical matters.
- 3.10 At the end of the period for representations there had been 85 representations received, 56 involving specific sites, 28 about 1 or more policies and 1 letter expressing support for the plan. We are

presently addressing the issues raised and we still intend to report back to this Committee after the summer.

- 3.11 Supplementary Guidance (SG) Alongside the work we are doing on the LDP, we have received 14 responses to the consultation on SG that ended on 11 January 2013. These responses included 22 comments, as follows:

Supplementary Guidance	Comments
Aquaculture Policy	2
Business and Industry	1
Local Landscape Areas	7
Local Nature Conservation Sites	2
Natural Heritage	2
Historic Environment	3
Parking Standards	1
Residential Access	0
Water and Drainage	2
Works Licence Policy	2
Total	22

- 3.12 Comments will be assessed and the SGs updated once the representations to the LDP have been completed and presented to Council in Autumn 2013.
- 3.13 Supplementary Guidance - Onshore Wind Energy is also reported on this agenda whilst it is planned that the SG Marine Spatial Plan will be published for consultation in Autumn 2013. Further SG is planned for 2014 and includes Minerals, Design, Location of Industry, Lerwick Town Centre, Renewable Energy and Open Space.
- 3.14 Supplementary Guidance provides detailed policy and/ or guidance on specific topics relating to strategic policies set out within the Local Development Plan. Supplementary Guidance linked to the Local Development Plan has statutory status under Section 22 of the Planning etc (Scotland) Act 2006. Supplementary Guidance cannot be adopted until such times as the Shetland Local Development Plan is fully adopted.

4.0 Implications

Strategic

- 4.1 Delivery of Corporate Priorities – When complete, the new Shetland LDP will be the strategic tool for the Council's development priorities. In conjunction with other Council policies (including the Local Housing Strategy), it will contribute to meeting the spatial aims of the Community Plan and the Corporate Plan.

The LDP will provide more certainty to the assessment of planning applications, as decisions will be made against an up to date framework. Failure to deliver an up to date development plan will jeopardise the speed and quality of decision making.

4.2 Community/ Stakeholder Issues – The extensive consultation exercises identified in this report have been explained in detail previously. Stakeholder consultation continued throughout the policy writing aspect of the LDP preparation and at the representations stage and it is possible that an Examination will be undertaken.

4.3 Policy And/ Or Delegated Authority – In accordance with Section 2.3.1 of the Council's Scheme of Administration and Delegations, the Development Committee has delegated authority to implement decisions within its remit.

Once approved, the Strategy will form part of the Council's strategic policy framework as referred to in Section 3(2) of the Governance procedures.

4.4 Risk Management - The lack of an up to date Development Plan could prevent the Council from supporting developments that are in line with its priorities, and result in more challenges to Council decisions. The LDP has been formulated to reflect the Council's priorities.

4.5 Equalities, Health And Human Rights – The process to deliver the LDP includes addressing the Council's obligation to comply with equalities legislation and policies, guidance and actions have been analysed and assessed against these obligations. A full assessment accompanies the LDP.

4.6 Environmental – The LDP has been subject to strategic environmental assessment (SEA) and a revised environmental report accompanies the LDP, which shows how environmental implications have been considered and impacts mitigated. A Habitats Regulations Appraisal supports the SEA to determine whether the LDP is likely to have a significant effect on any European site. The planning authority is also subject to the over-arching requirement to exercise the function (of preparing development plans) with the objective of contributing to sustainable development imposed by The Planning etc. (Scotland) Act 2006.

Resources

4.7 Financial – All costs in relation to the Local Development Plan Project will be met from existing budgets.

4.8 Legal – None.

4.9 Human Resources – Continuing work associated with the LDP will be undertaken by established staff.

4.10 Assets And Property – None.

5.0 Conclusion

- 5.1 The report highlights the work to produce an up to date and fit for purpose Local Development Plan that meets statutory requirements, national policy and local priorities and aspirations.

For further information please contact:
Austin Taylor, Team Leader Development Plans and Heritage
Tel. 744833 e-mail: austin.taylor@shetland.gov.uk
16 May 2013

Background Documents

All documents are available online at:
<http://www.shetland.gov.uk/planning/LocalDevelopmentPlan.asp>

END

**Development Committee****29 May 2013****Draft Onshore Wind Energy Supplementary Guidance****Report Number : PL-07-13-F****Report Presented By: Team Leader -
Development Plans and Heritage****Development Services Department /
Planning****1.0 Summary**

- 1.1 This report provides information on the development of the Draft Onshore Wind Energy Supplementary Guidance (Appendix1).
- 1.2 This report seeks approval to commence a 12-week period of public and stakeholder consultation on the Draft Onshore Wind Energy Supplementary Guidance

2.0 Decision Required

- 2.1 That the Development Committee RESOLVE to agree that the Supplementary Guidance, at Appendix, be the subject of a 12-week period of public and stakeholder consultation.

3.0 Detail

- 3.1 In accordance with Policy RE1 in the Proposed Shetland Local Development Plan and Scottish Planning Policy (SPP), Supplementary Guidance has been produced for the Development of Onshore Wind Energy Development.
- 3.2 SPP contains a requirement for planning authorities to provide a spatial framework for onshore wind farms of over 20 megawatts generating capacity. Within the spatial framework the planning authority should identify:
 - 1. Areas requiring significant protection because they are designated for their national or international landscape or natural heritage value, are designated as green belt or are areas where the cumulative impact of existing and consented wind farms limits further development

2. Areas with potential constraints where proposals will be considered on their individual merits against identified criteria, and
 3. Areas of search where appropriate proposals are likely to be supported subject to detailed consideration against identified criteria.
- 3.3 Appendix 1 contains the Spatial Framework as detailed above as well as the development criteria by which developments between 50KW and 20MW will be assessed. In addition the document contains information on micro-generation schemes and further sources of advice from statutory bodies.
- 3.4 Supplementary Guidance provides detailed policy on specific topics relating to strategic policies set out within the Local Development Plan. Supplementary Guidance linked to the Local Development Plan has statutory status under Section 22 of the Planning etc (Scotland) Act 2006. Supplementary Guidance cannot be adopted until the Shetland Local Development Plan is fully adopted.

4.0 Implications

Strategic

- 4.1 Delivery On Corporate Priorities – The draft Onshore Wind Energy Supplementary Guidance is well aligned to a number of Council Plans and strategies. These include the 2009 Renewable Energy Development in Shetland: Strategy and Action Plan, The Community Plan 2012-2020 and the Shetland Single Outcome Agreement (SOA) 2012-2015. In particular the following Local outcomes of the SOA:

We live and work in a renowned natural and built environment which is protected and cared for.

We deliver sustainable services and make sustainable decisions, which reduce harmful impacts on the environment.

- 4.2 Community /Stakeholder Issues – Prior to drafting Appendix 1 an initial draft of the Draft Onshore Wind Energy Supplementary Guidance was distributed to external and internal stakeholders for preliminary comments. This process of pre-consultation allowed us to produce a more comprehensive document with input from the key statutory agencies as well as other Council departments.
- 4.3 Policy And/Or Delegated Authority – In accordance with Section 2.3.1 of the Council's Scheme of Administration and Delegations, the Development Committee has delegated authority to implement decisions within its remit.
- 4.4 Risk Management – In order to be compliant with the requirements of SPP the Planning Authority must set out the Spatial Framework for Onshore Windfarm Development over 20MW. Failure to do so through this Supplementary Guidance could have repercussions for the

emerging Local Development Plan and its compliance with National Policy.

4.5 Equalities, Health And Human Rights – None

4.6 Environmental – The Draft Onshore Wind Energy Supplementary Guidance will be subject to Strategic Environmental Assessment as part of a wider SEA process on the suite of Supplementary Guidance complimenting the emerging Shetland Local Development Plan.

The planning authority is also subject to the over-arching requirement to exercise the function (of preparing development plans, and thus, related Supplementary Guidance) with the objective of contributing to sustainable development imposed by The Planning etc. (Scotland) Act 2006.

Resources

4.7 Financial – There are no direct financial implications arising from this report.

4.8 Legal – None

4.9 Human Resources – Development Plans and Heritage staff will carry out the ongoing work associated with the development of the Draft Supplementary Guidance on Onshore Wind Energy alongside other work.

4.10 Assets And Property – None

5.0 Conclusions

5.1 The report outlines the processes involved in the production of the Draft Onshore Wind Energy Supplementary Guidance at Appendix 1, to be the subject of a 12-week public and stakeholder consultation.

For further information please contact:

Laura Fiske, Planning Officer

01595 744832

Laura.fiske@shetland.gov.uk

16 May 2013

List of Appendices

Appendix 1 – Supplementary Guidance – Onshore Wind Energy - DRAFT

Background documents:

Proposed Shetland Local Development Plan

http://www.shetland.gov.uk/planning/documents/ShetlandLocalDevelopmentPlanv22FORMATTED28-11-12_000.pdf

END

Shetland Local Development Plan

Supplementary Guidance – Onshore Wind Energy - DRAFT

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1. CONTEXT

The purpose of this Supplementary Guidance (SG) is to:

- Provide developers with information and guidance on where, in principle, large-scale onshore wind energy developments and all associated infrastructure, are likely to be acceptable;
- Provide the criteria in which developments between 50KW and 20MW will be assessed.
- Provide guidance for micro-turbine schemes.

Potential developers are asked to refer to this guidance and contact the Council at an early stage to discuss their proposals.

How to use this Guidance

The Shetland Local Development Plan (the Plan), together with any Supplementary Guidance, sets out the policies and criteria against which planning applications submitted in Shetland will be considered.

This Supplementary Guidance sets out detailed policy advice to help you meet the requirements of the Plan. It is therefore recommended that it be read in conjunction with the policies in the Plan and any other Supplementary Guidance relevant to the type of development proposed.

Renewable Energy Resource

Shetland is well placed to make a positive contribution to the national targets through the development of the outstanding renewable resource available such as wind, wave and tidal. The Council is committed to harnessing the benefits from renewable energy for the good of the community at large.

Shetland demonstrates a number of strengths that support the development of renewable technologies, in particular wind. Shetland Islands Council seeks to support these opportunities ensuring that Shetland's renewable energy potential is optimised.

Renewable Energy Targets

In response to the Climate Change (Scotland) Act 2009 the Scottish Government has set targets of generating 30% of all Scottish energy needs including 11% of heat demand to be met by renewable sources by 2020. The Scottish Government also aims to reduce emissions by 42% by 2020 and by 80% by 2050. Development Plans

have a duty to contribute to sustainable development and encourage zero and low carbon developments.

Renewable energy developments are a key component for delivering the ongoing efforts for climate change mitigation and the move towards a low carbon society.

Assessing Development Proposals

National Policy

Scottish Planning Policy (SPP) sets out the Scottish Government's targets for renewable energy generation. SPP contains a requirement for Planning Authorities to provide a spatial framework for onshore wind farms of over 20 megawatts generating capacity.

Within the spatial framework the Planning authority should identify:

1. Areas requiring significant protection because they are designated for their national or international landscape or natural heritage value, are designated as green belt or are areas where the cumulative impact of existing and consented wind farms limits further development
2. Areas with potential constraints where proposals will be considered on their individual merits against identified criteria, and
3. Areas of search where appropriate proposals are likely to be supported subject to detailed consideration against identified criteria.

Local Development Plan Policy

The Local Development Plan is the main policy reference for all development within Shetland, the Council's Planning Service will use the land use planning policies contained in the Plan for the determining applications submitted under the Planning (Scotland) Acts. Any potential developer must consult the Local Development Plan to ensure compliance with the relevant policies.

The Shetland Local Development supports and encourages development of the diverse range of renewable energy technologies in order to maximise the associated social and economic opportunities whilst protecting the environment. Appropriately targeted renewable energy development has the potential to reduce Shetland's reliance on fossil fuels, thus offering protection against rising oil and gas prices.

LDP RE1 Renewable Energy states:

The Council is committed to delivering renewable energy developments that contribute to the sustainable development of Shetland. Proposals for renewable energy developments will be supported where it can be demonstrated that there are no unacceptable impacts on people (benefits and disbenefits for communities) the natural and water environment, landscape, historic environment and the built environment and cultural heritage of Shetland.

All proposals for renewable energy developments will be assessed with consideration of their cumulative impacts.

Further detailed guidance on renewable developments is provided in Supplementary Guidance.

Justification

Renewable energy comes from natural sources that are constantly and sustainably replenished such as sunlight, wind, rain, tides, wave and biomass; it also includes energy from waste.

This policy and related guidance supports and facilitates the alternative generation of energy whilst safeguarding Shetland's unique natural and historic environment. Renewable energy developments can provide a sustainable opportunity for diversification within the Shetland economy.

There is potential for communities and small businesses to invest in ownership of renewable energy projects or develop their own projects for the benefit of local communities.

The Scottish Government's targets are to reduce emissions by 42% by 2020 and by 80% by 2050 through the Climate Change (Scotland) Act 2009. Development Plans have a duty to contribute to sustainable development and encourage zero and low carbon developments.

Shetland demonstrates a number of strengths that support the development of renewable technologies and the Plan seeks to support these opportunities ensuring that Shetland's renewable energy potential is optimised.

Supplementary Guidance identifies broad areas of search illustrating areas where there are no known significant constraints to large scale windfarm developments. It will also give detailed guidance on renewable energy.

Classifying Wind Energy Developments**Wind Energy development categories and definitions**

Wind energy developments have been categorised in the table below. Although capacity is a primary determinant, other factors such as the number of turbines or size affect the information required and how the Council will consider applications for consent.

Wind Energy development categories

Category	Definition	Relevant Policies
VERY LARGE	Over 50MW	These applications are dealt with through the Scottish Governments Energy Consents Unit in accordance with Section 36 of the Electricity Act 1989.
LARGE (Large scale commercial windfarm development)	<ul style="list-style-type: none"> Over 20MW and up to 50MW capacity Turbines above 50m to the hub and/or above 80m to tip Grouping of 8 or more turbines regardless of output or height 	<ul style="list-style-type: none"> All developments will be assessed against the appropriate LDP policies. For turbines over 50m height (to hub), the developer will be required to submit a Zone of Theoretical Visibility (ZTV) map to a radius of a minimum of 20km with visualisations and photomontages and will be advised of other requirements through the EIA Screening process.
MEDIUM	<ul style="list-style-type: none"> Over 50KW and up to 20MW capacity up to 7 turbines up to 50m to the hub height Applications which fall into a category within the scope of an <i>Environmental Impact Assessment</i> 	<ul style="list-style-type: none"> All developments will be assessed against the appropriate LDP and SG policies. For turbines in the hub height range 15m to 50m, developers will be required to submit a Zone of Theoretical Visibility (ZTV) map to a radius of 15km with photomontages.
SMALL	<ul style="list-style-type: none"> 50KW-5MW Turbines below 50m to hub Turbines up to 3 in number 	All developments will be assessed against the appropriate LDP and SG policies. Depending on the location and number of turbines developers may be required to submit a Zone of Theoretical Visibility (ZTV) map with photomontages

MICRO GENERATION	<ul style="list-style-type: none"> • Under 50KW capacity and up to 3 turbines in number and up to and including 15 metres to hub height • Rotor diameter not exceeding 10.5m • 	Depending on the location and number of turbines developers may be required to submit a Zone of Theoretical Visibility (ZTV) map with photomontages.
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Supplementary Guidance Policy Section

Section 1 - Spatial Framework

The Spatial policies have been developed following the guidance set out by Scottish Government.

The spatial framework for wind energy applies to large scale developments of 20MW and above generating capacity. Following the Scottish Government's approval of the Viking Energy Windfarm in April 2012 the spatial framework shows the broad area of search is now considered to be at, or beyond, capacity in all landscape envelopes (as per *Landscape Sensitivity and Capacity Study for Wind Farm Development on The Shetland Islands*). This does not mean that developers may not put forward other sites for consideration; however these areas are potentially more constrained. See Table 2 below.

Reference	Policy	
Spatial Policy 1 Areas requiring Significant Protection	<p>The areas identified on Map 1 are afforded significant protection due to their national or international natural heritage value and, as such, are considered highly sensitive to large-scale windfarm developments.</p> <p>Areas where the cumulative impacts of existing and consented windfarms are considered to have exhausted the capacity for large scale wind energy developments are also afforded significant protection from future development.</p>	Map 1

	These areas are considered unsuitable for wind energy developments.	
Spatial Policy 2 Areas with Potential Constraints	<p>The areas identified on Map 2 have a recognised sensitivity to large scale wind energy developments and, as such, the scope for these developments is likely to be limited.</p> <p>Large scale wind energy developments may be permitted within these areas where it can be demonstrated that the development criteria (<i>contained in section 2 of this guidance</i>) relating to the following factors can be satisfactorily achieved:</p> <p>Landscape</p> <p>Historic Environment</p> <p>Natural Heritage</p> <p>Water Environment</p> <p>Aviation and MOD consultation zones</p> <p>Quality of life and amenity</p> <p>Cumulative Impacts</p> <p>Any application for large scale wind energy developments will be required to meet all applicable Shetland Local Development Plan policies and relevant National and International guidance.</p>	Map 2
Spatial Policy 3 Broad areas of search	<p>These areas are considered to be capable, in principle, of supporting large scale wind energy developments within Shetland.</p> <p>Proposals for wind energy developments within these areas must satisfy the development criteria set out</p>	Map 3 and Map 4

	<p>in Section 2 of this guidance.</p> <p>Any application for wind energy developments will be required to meet all applicable Local Development Plan policies and relevant National and International guidance.</p> <p>In April 2012 Scottish Government gave consent for 103 turbines in the area of search, this area is now at, and in some cases, beyond capacity. Therefore the capacity of the area of search according to Scottish Government Process for preparing spatial frameworks for wind turbines is now identified as an area requiring significant protection.</p>	
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Justification

This spatial framework has been developed following Scottish Government guidance on preparing spatial frameworks for onshore wind farm developments over 20MW, incorporating Land Use Consultants Landscape Sensitivity Study 2009. It also takes account of the work done to establish Local Nature Conservation Sites (LNCS), Local Landscape Areas (LLA), safeguarding and archaeology.

Areas requiring significant protection (International & National designations)

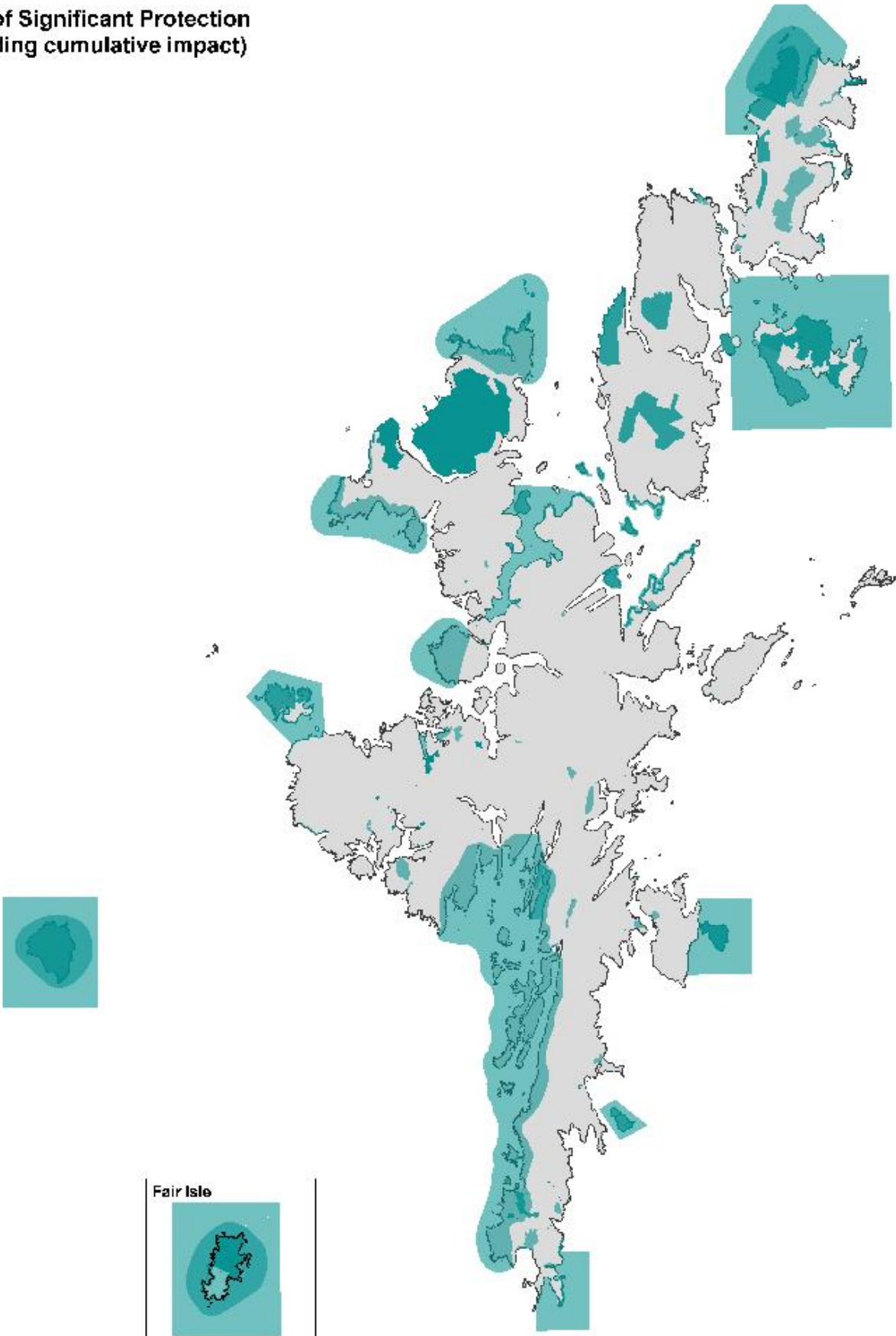


Areas with potential constraints



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**Areas of Significant Protection
(Excluding cumulative impact)**



Shetland Islands Council

Potentially Constrained Areas

High Sensitivity Areas (Landscapes)

Inland Water

Civil Aviation/MOD Safeguarding

Tingwall Airport 10km Safeguarding



Moderate Sensitivity Areas (Landscapes)



30km radius safeguarding Scasta & Sumburgh Airport

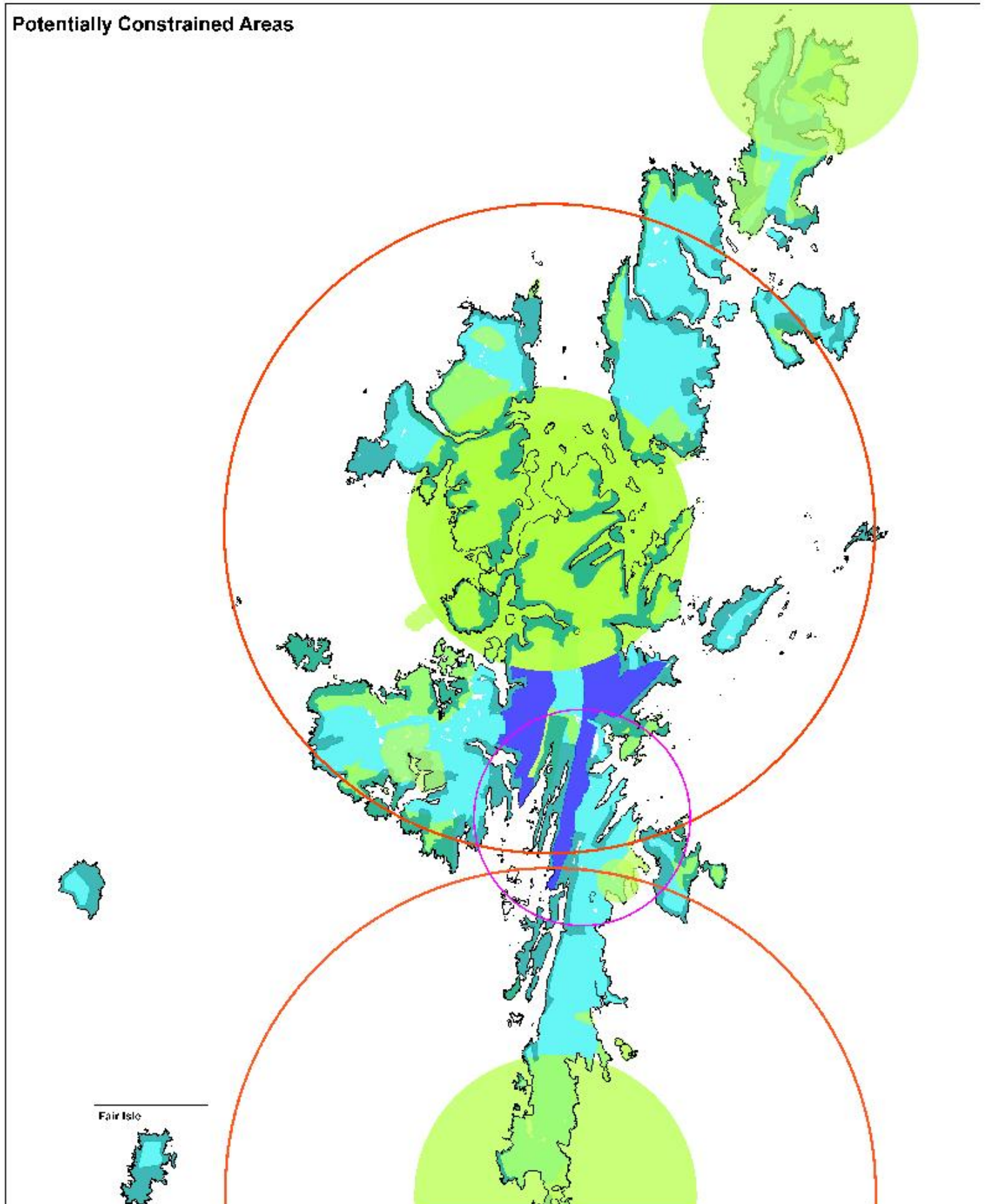


Broad Area of Search



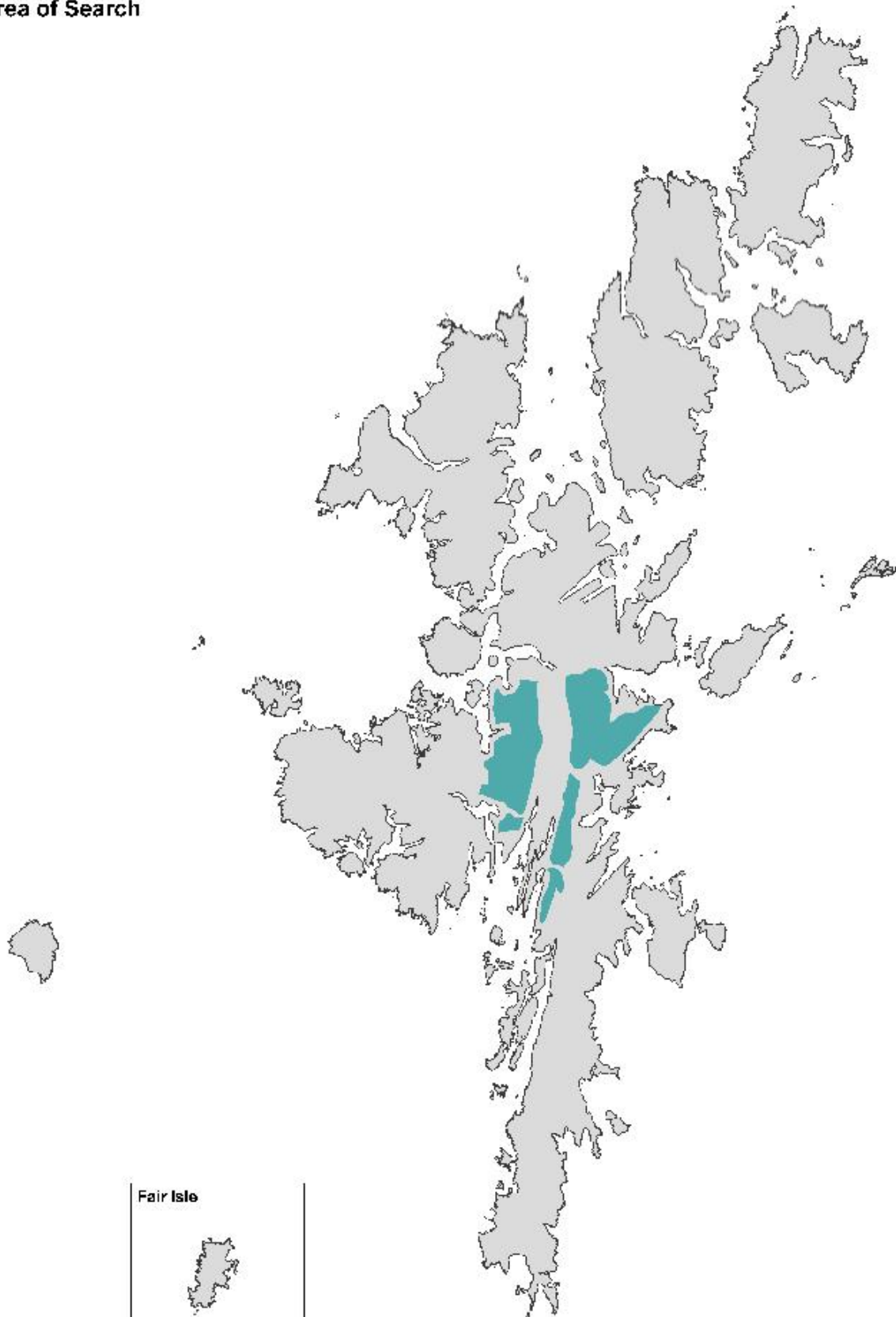
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Potentially Constrained Areas





Broad Area of Search



Shetland Islands Council

Areas with potential constraints



Viking Energy proposed Windfarm

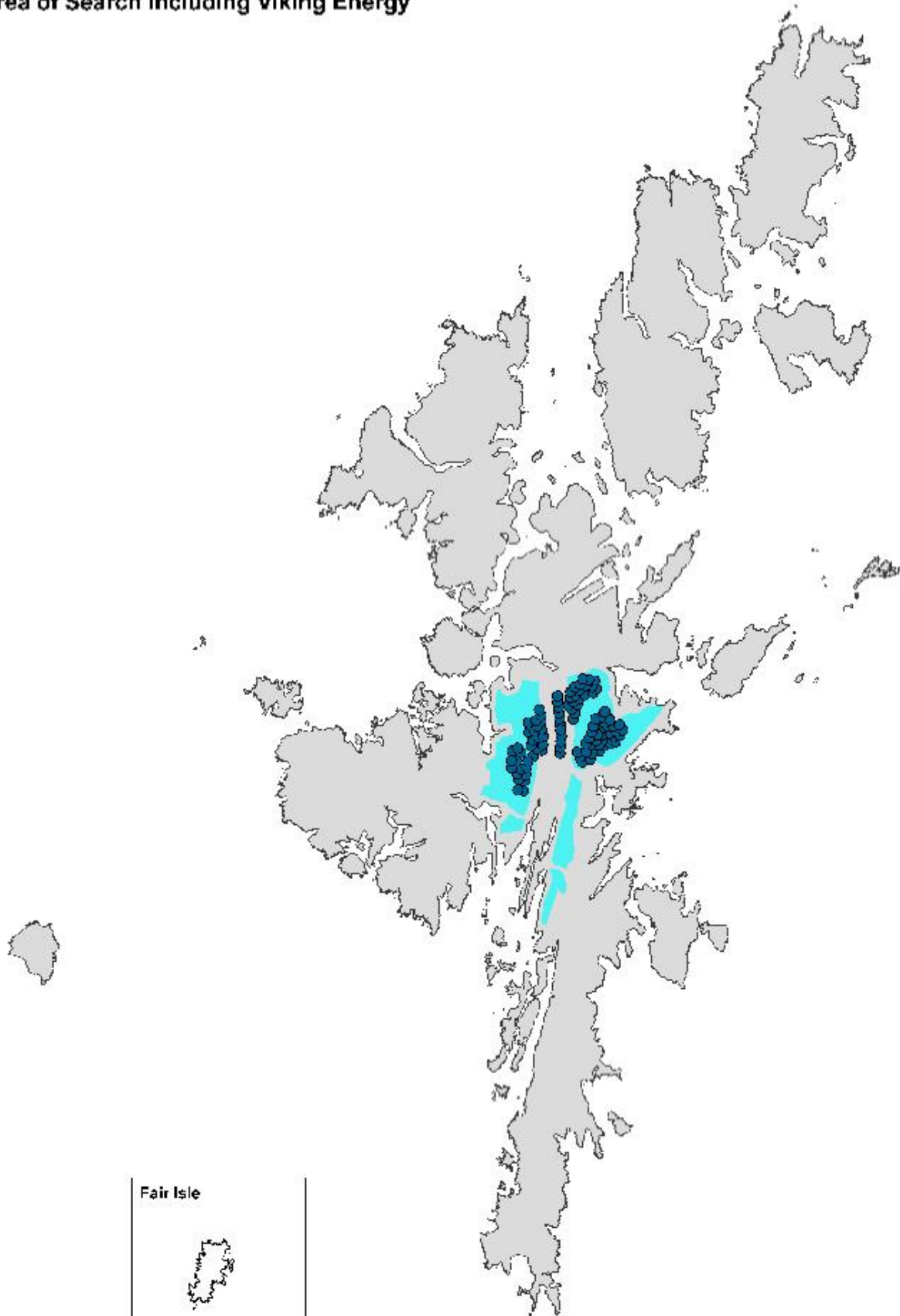


Broad Area of Search



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Broad Area of Search Including Viking Energy



Section 2 Development Criteria

Policies

- Landscape and Visual
- Cumulative Impact
- Natural Heritage
- Impacts on communities
- Water Resources
- Decommissioning
- Historic Environment

All proposals for windfarm development must comply with the access requirements as set out in the Shetland Islands Council Roads Department guidance document 'Windfarm Access Design Guide'.

Development Criteria 1- Landscape and Visual Impact

Any on-shore and offshore wind energy development and its associated infrastructure will have an impact on the landscape character and visual amenity of Shetland (see PAN 45). The aim of this policy is to direct development to where it will be least damaging to the landscape and visual amenity.

DC1 Landscape and Visual Impact

All applications must be accompanied by an assessment of the likely impact of the proposed development on landscape character and visual amenity. This assessment must meet the requirements of published guidance in Scottish Planning Policy and from national statutory consultees and accepted good practice.

Developers of large and medium proposals may be required to show that their proposal conforms to the guidance provided in the Landscape Sensitivity and Capacity Study for Wind Farm Development on The Shetland Islands (Land Use Consultants for SIC, 2009) for each affected visual compartment, and how it takes account of the described landscape sensitivities of each landscape character area and against other guidance produced by statutory bodies.

Zone of Theoretical Visibility (ZTV) maps must be included as recommended in relevant guidance for:

For turbines over 50m height (to blade tip), the developer will be required to submit a Zone of Theoretical Visibility (ZTV) map to a minimum radius of 20km with visualisations and photomontages and will be advised of other requirements through the EIA Screening process.

For turbines in the hub height range of over 15m and up to 50m, developers will be required to submit a ZTV map to a radius of 15km with photomontages

Depending on the location and potential cumulative impact of the development, any applicant may be required to submit a ZTV. This includes Small and Micro Generation turbines.

When assessing these impacts, the associated infrastructure, including tracks, power lines and ancillary development should be considered as well as the scale and pattern of the turbines.

Justification

The developer will submit a Landscape and Visual Impact Assessment that includes an assessment of cumulative landscape and visual effects, enabling SIC to fully understand the nature and significance of potential effects upon the landscape and views. This should be undertaken and presented in line with guidance issued by Scottish Natural Heritage, the Landscape Institute and The Institute of Environmental Management & Assessment and include all elements of the development, including all ancillary infrastructure (such as access tracks, borrow pits, any necessary road widening/ straightening, turbine foundations, crane hard standings, substations, control rooms or offices, car parks and the grid connection).

Further Advice

Further advice on landscape and visual impacts can be found at <http://www.snh.gov.uk/planning-and-development/renewable-energy/onshore-wind/landscape-impacts-guidance>

Development Criteria 2 Natural Heritage

Any on-shore wind development and associated infrastructure must comply with LDP Natural Heritage policies: NH1, NH2, NH3, NH4, NH5, NH6, Natural Heritage Supplementary Guidance and Local Nature Conservation Site Supplementary Guidance.

In addition to accordance with policies NH1-NH6, any onshore wind development should address the following:

Birds

Shetland supports important populations of birds in addition to those that form part of the qualifying interest of designated sites. Proposals for onshore wind development, should show that, individually or cumulatively, they will not adversely affect the favourable conservation status of a species, or stop a recovering species from reaching favourable conservation status, at international, national or regional level. See SNH guidance on [Assessing Significance of Impacts from Onshore Windfarms Outwith Designated Areas](http://www.snh.gov.uk/docs/C206958.pdf) - www.snh.gov.uk/docs/C206958.pdf.

During the development of onshore wind developments the following risks should be considered:

- Collision with turbines and associated infrastructure;
- Displacement of birds due to loss of suitable feeding and/or breeding/wintering habitat;
- Disturbance within and around the turbine; and
- Creating a barrier to dispersal, regular movements or migration.

The risk of disturbance to bird species during construction and operation of an onshore wind development is also an important consideration. For some species this is of greater potential significance than collision mortality. A Bird Protection Plan should be developed as part of an onshore wind development proposal and should include consideration of the potential for activities to disturb bird species, particularly during the bird breeding season and other seasonal bird activity, such as migration. Bird Protection Plans should also include information on the monitoring of the development's effects on bird populations.

Further Advice

SNH Guidance on assessing windfarm impacts on birds can be found at <http://www.snh.gov.uk/planning-and-development/renewable-energy/onshore-wind/windfarm-impacts-on-birds-guidance/>

European Protected Species

Wind farm development proposals should also consider the potential impact of wind developments on otters, and identify the potential need for surveys and mitigation measures, all as set out in SG Natural Heritage.

UKBAP Priority Species

Wind farm development proposals should consider the potential impact of wind developments on UKBAP Priority Species, and identify the potential need for surveys and mitigation measures.

Peat

It should be demonstrated that the whole life carbon balance of the proposals has been considered, for example through the use of a carbon calculator <http://www.scotland.gov.uk/Topics/Business-Industry/Energy/Energy-sources/19185/17852-1/CSavings>. Where it is proposed that the development will be on peat it is expected that a carbon calculation be used during the preparation of the proposal. For windfarms which are below the generation/ size threshold for application of the carbon calculator, evidence should still be submitted as part of the planning application to provide evidence that the carbon impact of the development has been minimised.

It should also be demonstrated how the layout and design of the proposal, including all infrastructure, has been devised to avoid impacts on peat. Guidance on peat depth surveys, construction methods on peat and suitable methods of re-use of excavated peat can be found in the 'Developments on peatland guidance' (see links in further advice). Where avoidance is impossible details of how impacts are minimised and mitigated should be provided, including a detailed map of peat depth and characteristics. Geotechnical and hydrological information should be included identifying the presence of peat at each site, including the risk of landslide connected to any development work

Potential impacts on peat that should be considered include, but are not limited to:

- Waste management;
- Drainage;
- Dewatering
- Excavation;
- Pollution;
- The potential for landslides and bog bursts;
- The effects on peatland habitat and associated species;
- Other ecological functions of peat

Any Habitat Management Plan developed, as part of the proposal should include consideration of peatland habitats.

All developments must be in accordance with relevant waste legislation, which may be relevant with regard to the excavation, storage re-use, recycling, recovery, disposal and treatment of peat. Further information is available from SEPA. SEPA's regulatory position statement on Peat can be accessed here: [Regulatory Position Statement – Developments on Peat](#)

DC3 Cumulative Impacts

Developers will be expected to demonstrate that proposals will not result in unacceptable cumulative impacts.

Justification

In addition to DC1 Landscape and Visual Impact Assessment, developers will be asked to take into account a wide range of cumulative factors including the natural, historic and built environment, the visual amenity of residents and wider socio-economic impacts. All applications will be assessed on a case-by-case basis and should be accompanied by an assessment of the likely cumulative impacts on natural heritage, particularly in relation to bird species and peatland. When assessing cumulative impacts on natural heritage, all associated infrastructure, including tracks, power lines and ancillary development should be considered. Cumulative impacts on natural heritage can include, but are not limited to:

- Collision risk;
- Displacement;
- Disturbance;
- The creation of barriers to species movements
- Habitat loss

Further Advice

Developers should refer to SNH's guidance 'Assessing the Cumulative Impact of Onshore Wind Energy Developments 2012' <http://www.snh.gov.uk/planning-and-development/renewable-energy/onshore-wind/general-advice-and-information/>

Habitat Management Plans

A Habitat Management Plan (HMP) should accompany applications for onshore wind developments where it is necessary to mitigate or compensate for impacts on

important habitats or species. These are usually implemented within the area of the development, but may include areas outwith the development areas, subject to relevant agreements. A Habitat Management Plan should include:

- The reason for the HMP;
- The aims of the HMP;
- An appropriate methodology, including details of timescales, locations and responsibilities;
- A monitoring schedule;
- Monitoring, reporting and revision proposals.

Further Advice

Further information can be found in SNH's [Planning for development: what to consider and include in Habitat Management Plans](#)

Further information on carbon calculation can be found on the Scottish Government website at: <http://www.scotland.gov.uk/Topics/Business-Industry/Energy/Energy-sources/19185/17852-1/CSavings>

Further information on Peat can be found at:

- SNH, SEPA, Scottish Government and The James Hutton Institute (2011) *Developments on Peatland: Site Surveys and Best Practice* www.scotland.gov.uk/Resource/Doc/917/0120462.pdf
- FCS and SNH (2010) *Floating Roads on Peat* www.roadex.org/uploads/publications/Seminars/Scotland/FCE:SNH%20Floating%20Roads%20on%20Peat%20report.pdf

DC4 – Impacts on Communities

Development proposals must, in combination with existing and consented wind energy developments, assess the likely impact on communities, including long term and significant impact on amenity.

Justification

Planning applications must be accompanied by an assessment of the effects on these locations covering a range of factors including; visual amenity, noise, shadow flicker, electromagnetic interference, designated sites, road safety and construction/decommissioning logistics, phasing and any other identifiable significant effects.

DC 5 Water Resources

Onshore wind energy development and/ or associated infrastructure proposals should demonstrate that there will be no significant adverse effects on the water

environment, including wetlands and Ground Water Dependant Terrestrial Ecosystems (GWDTE's)

Justification

The Council has a duty to protect and, where possible improve, Shetland's water environment in its role as a responsible authority under the Water Framework Directive. It is a key objective of the Scottish River Basin Management Plan and the Shetland Area Management Plan that water bodies and watercourses achieve good ecological status and that there is no deterioration in the current ecological status. The water environment includes burns, rivers, ponds, lochs, wetlands, standing, tidal or coastal waters as well as ground water.

The water environment has a finite capacity to receive pollutants. The provision of sustainable drainage infrastructure is essential in protecting, maintaining and improving the water environment.

Further Advice

For drainage issues associated with public roads and roads drainage issues please refer to Shetland Islands Councils Roads Access Design Guide.

It is recommended that applicants refer to SEPA LUPS GU4 'Planning guidance on windfarm developments'. Also, SEPA, SNH, FCS and Scottish Renewables '*Good practice during windfarm construction*'
http://www.scottishrenewables.com/static/uploads/publications/good_practice_during_windfarm_construction.pdf

Applicants are encouraged to enter into pre-application discussions with the Council and SEPA to discuss the potential development and any issues that may arise at an early stage.

http://www.sepa.org.uk/planning/sustainable_waste_management/surplus_peat_management.aspx

SEPA holds a list of all GWDTE's within all designated sites (SSSI's, SPA's and SAC's). There will also be GWDTE's outwith designated sites. These can be identified using the procedure in SEPA's planning Guidance on windfarm developments (paragraph 3.2) <http://www.sepa.org.uk/planning.aspx>

DC 6 Decommissioning

Proposals for onshore wind energy developments and associated infrastructure should be accompanied by a decommissioning statement detailing the method of reinstatement of the site to its original condition. The decommissioning statement should include details of the removal of all turbines and ancillary buildings and

related plant as well as the reinstatement of land altered by any ancillary infrastructure.

Justification

The lifespan of most commercial wind turbines is typically suggested to be 25 years and therefore Planning Permission will usually be granted for this period.

Due to the limited lifespan of the equipment associated with wind energy developments it is essential that the removal of redundant equipment and associated ground disturbance be considered from the outset of the project development.

Decommissioning statements should take into account best practice guidance from the Scottish Government, Scottish Natural Heritage and the Scottish Environmental Protection Agency.

¹ <http://www.snh.gov.uk/docs/A337202.pdf>

¹ Land Use Planning System SEPA Guidance Note 4 Issue No: Version 6 Issue date: 12 March 2012 planning guidance on windfarm developments <http://www.sepa.org.uk/planning/energy.aspx>

DC7 Historic Environment

Shetland's historic environment encompasses ancient monuments, historic buildings, conservation areas, archaeological sites and landscapes, historic gardens and designed landscapes. Onshore wind energy development and/ or associated infrastructure proposals must not adversely affect the historic environment or its key features, including its setting and intervisibility between assets.

Applications for wind energy developments should include an assessment of the surrounding historic environment and potential impacts on the structures and their setting.

All other significant archaeological features should be preserved in situ wherever feasible. Where preservation in situ is not possible the planning authority should ensure that developers undertake appropriate archaeological excavation, recording, analysis, publication and archiving in advance of and/ or during development. In the case that archaeological remains become apparent after development has commenced the Shetland Islands Archaeologist should be informed immediately.

Justification

The setting of archaeological and historical features is important to our understanding of the historic environment, and thus can be sensitive to new developments. Many areas within Shetland include a number of assets where intervisibility between them is regarded as a key feature of their historic importance, which increases their sensitivity to new developments.

There are areas in Shetland where historic features are more prevalent, for example, the close network of archaeological sites in south Dunrossness, including: Jarlshof, Old Scatness, Ness of Burgi, Sumburgh Head and including Eastshore and Clevigarth Brochs. This is an example where intervisibility between assets is a key feature of the area.

Historic Gardens and Designed Landscapes within Shetland are also sensitive to new developments. As views both in and out of these are important characteristics their settings should be safeguarded from adverse impacts.

Further Advice

Should there be known archaeology or a risk of archaeology in the area of your proposed site contact the Shetland Archaeologist at the Shetland Amenity Trust for further information.

<http://www.historic-scotland.gov.uk/managing-change-consultation-micro-renewables.pdf>

Micro Generation Proposals

Micro generation is defined as the production of heat (less than 45 kilowatt capacity) and/or electricity (less than 50kw capacity) from zero or low carbon source technologies. Wind energy generated through micro-technologies is increasingly seen as part of a wider strategy to address climate change and fuel poverty.

The Scottish Government and Shetland Islands Council support the principle of wind energy development. Some micro generation developments may be deemed permitted development, however, this is a very complex area where prior approval is often required. Developers should seek advice from SIC Development Management prior to progressing any development proposals.

Further guidance on micro-renewables can be found at

<http://www.snh.gov.uk/planning-and-development/renewable-energy/micro-renewables/>

Further Useful Guidance

SEPA have produced the following useful guidance documents which should be considered in relation to wind energy developments. The following documents can be accessed at <http://www.sepa.org.uk/planning.aspx>

SEPA Position statement on Waste

SEPA planning Guidance on windfarm developments

SEPA's (interim) Position Statement on Planning, Energy and Climate Change

SEPA, SNH, FCS and Scottish Renewables: Good Practice During Windfarm Construction

**Development Committee****29 May 2013****Shetland Development Trust Annual Accounts for year ended 31 March 2013****Report No: DV020-F****Report Presented by Executive Manager****Development Services Department
Economic Development****1.0 Summary**

- 1.1 The purpose of this report is to present and seek approval for the annual accounts of the Shetland Development Trust (SDT) for the year ended 31 March 2013, attached as Appendix 1.

2.0 Decision Required

- 2.1 That the Development Committee RESOLVE to approve:
- the accounts of the SDT for the year ended 31 March 2013; and
 - the transfer of £500k of the revenue surplus to the Capital Account to fund the estimated inheritance tax liability recognised in these accounts, and the distribution of the remaining surplus of £474k to charitable bodies.

3.0 Detail

- 3.1 The presentation of these accounts are required under the Administration Regulations of the SDT which include:
- preparing regular accounts, reporting thereon to the Trustee, and preparing and publishing annual accounts of the Trust on behalf of the Trustee; and
 - ensuring that the annual accounts of the Trust are audited after the end of the appropriate year, without undue delay.

- 3.2 The Administration Regulations of the SDT still apply insofar as they relate to the Council as sole Trustee. However, the conduct of the Development Committee, even when acting on behalf of the Council as Trustee, is also governed by the rules applying to all Committees and Members in their capacity as Councillors.

4.0 Implications

Strategic

- 4.1 Delivery On Corporate Priorities – This report links to the Council's Corporate Plan 2010-12, which sets out a range of priorities to more effectively and efficiently organise the Council's business.
- 4.2 Community /Stakeholder Issues – NONE
- 4.3 Policy And/Or Delegated Authority – This report has been prepared in relation to the Economic Development Policy Statement 2007-2011. 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).

In accordance with Section 2.3.1 of the Council's Scheme of Administration and Delegations, the Development Committee has delegated authority to implement decisions within its remit.

The Council's role as sole Trustee for Shetland Development Trust is deemed to fall within the performance of its development function.

- 4.4 Risk Management – Failure to present these accounts and have them formally approved would be a breach of the Administration Regulations of the SDT.
- 4.5 Equalities, Health And Human Rights – None.
- 4.6 Environmental – None.

Resources

- 4.7 Financial – None.
- 4.8 Legal – None.
- 4.9 Human Resources – None.
- 4.10 Assets And Property – None.

5.0 Conclusions

- 5.1 The accounts have been prepared as part of the Administration Regulations of the SDT and require approval by the Development Committee as sole Trustee.

For further information please contact:

Name: Douglas Irvine
Position: Executive Manager
Tel: 01595 744932
Email: douglas.irvine@shetland.gov.uk
Date: 16 May 2013

List of Appendices

Appendix 1 – Shetland Development Accounts for year ended 31 March 2013.

END

Shetland Development Trust

Annual report and accounts
31 March 2013

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Chairman's statement

I present this report to give a summary of the performance of the Shetland Development Trust (SDT) to the public, Shetland Islands Council and interested parties during the period between 1 April 2012 and 31 March 2013.

This set of accounts deals with the existing investments of the SDT, which continue to be serviced under the auspices of the Shetland Islands Council acting as sole Trustee of the SDT. The portfolio of investments consists primarily of loans, equity and quota.

All investments are being managed out in line with loan or shareholders' agreements. The investments continue to successfully generate surplus which is to be distributed in future years for the benefit of the Shetland community through funding charities with development aims.

Staff continue to manage, monitor and review the SDT investments along with other duties within the Economic Development Service. I would like to express my appreciation for these hardworking and efficient staff.

During the year agreement was reached with HM Revenue and Customs that the Trust is no longer trading. The settlement identified an overpayment of £685,000, which has been included in the annual accounts as a debtor at 31 March 2013. This has reduced the tax charge in the Revenue Account. The Trust is still awaiting a decision in respect of the inheritance tax position. The estimated liability at 31st March 2013 was £500,000. A liability has been created and funded through a transfer from the Revenue to Capital Account.

A Cooper

Chairman of Development Committee

Trustee and advisers

Trustee: Shetland Islands Council, as a body

Principal address: Solarhus
3 North Ness Business Park
Lerwick
Shetland
ZE1 0LZ

Bankers: Bank of Scotland
117 Commercial Street
Lerwick
Shetland
ZE1 0DN

Solicitors: Brodies LLP
15 Atholl Crescent
Edinburgh
EH3 8HA

Auditor: KPMG LLP
37 Albyn Place
Aberdeen
AB10 1JB

Statement of Trustee's Responsibilities

The Trust Deed, dated 8 January 1996, does not contain any specific requirements with regard to record keeping or the preparation of accounts. The Trustee has decided that non-statutory accounts should be prepared and that generally accepted accounting practice in the United Kingdom should be applied. They have also decided that the non-statutory accounts should be audited. In the preparation of these non-statutory accounts, the Trustee has decided to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the non-statutory accounts; and
- prepare the non-statutory accounts on the going concern basis unless it is inappropriate to presume that the Trust will continue in business.

The Trustee has an implicit general responsibility under the Trust Deed for taking such steps as are reasonably open to them to safeguard the assets of the Trust and to prevent and detect fraud and other irregularities.

ABCD

*37 Albion Place
Aberdeen
AB10 1JB
United Kingdom*

Report of KPMG LLP to the Trustee of Shetland Development Trust

We have audited the non-statutory accounts of Shetland Development Trust for the year ended 31 March 2013 set out on pages 5 to 13. The non-statutory accounts have been prepared for the reasons and on the basis of the accounting policies set out in note 2 to the non-statutory accounts.

Our report has been prepared for the Trust solely in connection with our engagement letter dated 22 March 2013. It has been released to the Trust on the basis that our report shall not be copied, referred to or disclosed, in whole (save for the Trust's own internal purposes) or in part, without our prior written consent.

Our report was designed to meet the agreed requirements of the Trust determined by the Trust's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Trust for any purpose or in any context. Any party other than the Trust who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of our report to any other party.

Respective responsibilities of Trustee and auditor

As explained more fully in the Trustee's Responsibilities Statement set out on page 3, the Trustee of the Shetland Development Trust is responsible for the preparation of the non-statutory accounts in accordance with the basis of preparation as set out in note 2 to the non-statutory accounts. Our responsibility is to audit, and express an opinion on, the non-statutory accounts in accordance with the terms of our engagement letter dated 22 March 2013 and having regard to International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the non-statutory accounts

An audit involves obtaining evidence about the amounts and disclosures in the non-statutory accounts sufficient to give reasonable assurance that the non-statutory accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Trust's circumstances and have been consistently applied and adequately disclosed; and the reasonableness of significant accounting estimates made by the Trustee. In view of the purpose for which these non-statutory accounts have been prepared, however, we did not assess the overall presentation of the non-statutory accounts which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify any material inconsistencies with the audited non-statutory accounts. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on non-statutory accounts

In our opinion the non-statutory accounts of the Trust for the year ended 31 March 2013 have been properly prepared, in all material respects, in accordance with the basis of preparation and the accounting policies set out in note 2 to the non-statutory accounts.

KPMG LLP
Chartered Accountants
XX XXXX 2013

Revenue account

for the year ended 31 March 2013

	Note	2013	2012
		£000	£000
Income			
Local loan interest		201	290
Short term deposit interest		11	7
Dividends receivable		150	135
Whitefish quota rental income		539	903
Other income		-	3
Total income		901	1,338
Expenditure			
Audit, accountancy and tax fees		(59)	(51)
Legal fees		(6)	(1)
Administration expenses	3	(258)	(14)
Total expenditure		(323)	(66)
		578	1,272
Taxation	4	396	(509)
Surplus for the year		974	763
Transferable to Shetland charitable bodies		(474)	(763)
Transfers to Capital Account		(500)	-
Surplus carried forward		-	-

Capital account

for the year ended 31 March 2013

	2013 £000	2012 £000
Amortisation of fish quota	(916)	(916)
Amortisation of fishing boat licence	(30)	(30)
(Increase) / decrease in provisions (net)	226	269
Taxation provision	(500)	-
Repayments of equity/loans	-	(2,111)
Transfers from Revenue Account	500	-
	<hr/>	<hr/>
Deficit for the year	(720)	(2,787)
Balance brought forward	11,911	14,698
	<hr/>	<hr/>
Balance carried forward	11,191	11,911
	<hr/> <hr/>	<hr/> <hr/>

Balance sheet
at 31 March 2013

		2013	2012
	<i>Note</i>	£000	£000
Fixed assets			
Tangible assets	5	-	-
Intangible assets	6	7,283	8,228
Equity investments	7	168	235
		<hr/>	<hr/>
Total fixed assets		7,451	8,463
Loans to local industry	8	1,202	1,715
Current assets			
Debtors	9	621	628
Cash at bank		3,069	3,328
		<hr/>	<hr/>
		3,690	3,956
Current liabilities			
Creditors: amounts falling due within one year	10	(1,152)	(2,223)
		<hr/>	<hr/>
Net current assets		2,538	1,733
		<hr/>	<hr/>
Net assets		11,191	11,911
		<hr/>	<hr/>
Represented by:			
Capital account		11,191	11,911
		<hr/>	<hr/>

The non-statutory accounts were approved by the Trustee and subsequently signed on their behalf on 29 May 2013 by:

A Cooper
Chairman of the Development Committee,
On behalf of the Trustee

Notes

(forming part of the accounts)

1 Trust constitution

Shetland Development Trust is a public non-charitable trust and was constituted under a Deed of Trust registered in Edinburgh on 8 January 1996. The object of the Trust is to assist local businesses in the Shetland Islands. Financial assistance may include the purchase of equity, the provision of guarantees and the provision of loans and grants.

The Trust maintains both a capital and revenue account. The capital account has been funded by grants from the Shetland Islands Council's Reserve Fund and transactions adjusting those capital grants are charged or credited to the capital account. Income receivable from investments funded by the capital account are credited to the revenue account and costs incurred in earning that income are charged to the revenue account. Taxation payable on the income of the Trust, after allowable expenses, is charged to the revenue account. Other taxation payable is charged to the capital account. Any net income after tax of the Trust is made available for distribution to be paid over to such charitable body or bodies in the Shetland Islands as the trustee shall determine.

The current trustee of the Trust is shown on page 2. The Trust Deed confers the power on the trustee to assume new trustees.

Details of the development, activities and achievements of the Trust during the year are given in the chairman's statement. Details of the Trust's investment policy are contained in a separate policy statement, a copy of which can be obtained from the Trust's principal address shown on page 2.

2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the non-statutory accounts.

Basis of preparation

The trustee has decided that these non-statutory accounts should be prepared in accordance with the terms of the declaration of trust applying generally accepted accounting practice for transactions where no specific provision is made in the declaration of trust, with the exception of accounting for retirement benefits.

The accounting concepts of "materiality", "accruals" and "going concern" have been considered in the application of the accounting policies. In this regard the materiality concept means that information is included where it is of such significance as to justify its inclusion. The accruals concept requires the non-cash effects of transactions to be included in the year in which they occur, not in the period in which cash is paid or received. The going concern concept assumes that the Trust will continue to operate for at least 12 months from the approval of the non-statutory accounts.

Tangible fixed assets and depreciation

Tangible fixed assets are capitalised at cost. Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives through the revenue account as follows:

Fixtures, fittings and equipment	-	4 years
Abattoir	-	5 years

Where evidence of impairment exists, the value of tangible fixed assets is written down accordingly with the corresponding charge being made to the capital account.

Intangible fixed assets and amortisation

Fish quota and fishing boat licences are capitalised at cost. The costs of fish quota and the fishing boat licence are amortised over a period of 20 years, being their estimated useful lives. Where evidence of impairment exists, provision is made accordingly. Amortisation charges and any changes in provision are charged to the capital account. On the basis of industry advice, the trustee considers whether the carrying values of these assets are in excess of their recoverable amounts and require impairment.

Notes *(continued)*

Accounting policies *(continued)*

Investments

Fixed asset equity investments are shown at cost. Provision is made where evidence of impairment exists and the investments are written down accordingly, the charge being made to the capital account.

Current asset investments are shown at the lower of historic cost and market value. Where market value is less than cost, the impairment difference is charged to the capital account.

Loans to local industry

Loans to local industry are shown at the amount advanced less provisions for non-recovery. In the balance sheet the net amount is disclosed below fixed assets. Advances, repayment and changes in the provision for non-recovery are all charged to the capital account.

Interest and dividends receivable

All payments of interest on loans, share dividends and all other income of the Trust are credited to the Trust's revenue account when the Trust can be reasonably certain that payments will be receivable. Quota rental income is credited to the revenue account on an accruals basis.

Cash and liquid resources

Cash comprises cash in hand and deposits repayable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values.

Taxation

The Trust is a discretionary trust for tax purposes, and as such the income of the Trust, after allowable expenses, is subject to taxation at the rate applicable to such trusts, currently 50%.

The Trust is also subject to a ten-yearly charge for inheritance tax, which was last chargeable based on the position as at November 2005.

Notes (continued)

3 Administration expenses

Total administration expenses for the year of £258,000 (2012: £14,000), are analysed as follows:

	2013 £000	2012 £000
Salary and related costs	66	35
Quota administration charge	72	-
VAT costs	121	-
Other costs	6	4
Recovered through recharge	(7)	(25)
	<hr/> 258 <hr/>	<hr/> 14 <hr/>

4 Taxation

	2013 £000	2012 £000
Income tax:		
On income for the year	289	509
Overpayment of tax relating to prior years	(685)	-
	<hr/> (396) <hr/>	<hr/> 509 <hr/>

5 Tangible fixed assets

	Fixtures, fittings & equipment £000	Abattoir £000	Total £000
Cost			
At beginning and end of year	68	50	118
	<hr/>	<hr/>	<hr/>
Depreciation			
At beginning of year	68	50	118
Charge for year	-	-	-
	<hr/>	<hr/>	<hr/>
At end of year	68	50	118
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 March 2013	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 March 2012	-	-	-
	<hr/>	<hr/>	<hr/>

Notes (continued)

6 Intangible fixed assets

	Fish quota £000	Fishing boat licence £000	Total £000
Cost			
At beginning of year	17,967	592	18,559
Additions	-	-	-
	<hr/>	<hr/>	<hr/>
At end of year	17,967	592	18,559
	<hr/>	<hr/>	<hr/>
Amortisation and impairment			
At beginning of year	10,065	266	10,331
Amortisation charge for year	916	30	946
	<hr/>	<hr/>	<hr/>
At end of year	10,981	296	11,277
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 March 2013	6,986	296	7,282
	<hr/>	<hr/>	<hr/>
At 31 March 2012	7,902	326	8,228
	<hr/>	<hr/>	<hr/>

7 Equity investments

	Participating interests £000
Cost	
At beginning of year	7,055
Disposals	(765)
	<hr/>
At end of year	6,290
	<hr/>
Provisions	
At beginning of year	6,820
Released in year	(698)
	<hr/>
At end of year	6,122
	<hr/>
Net book value	
At 31 March 2013	168
	<hr/>
At 31 March 2012	235
	<hr/>

Certain of the Trust's investments are held in the name of a nominee company.

Notes (continued)

7 Equity investments (continued)

The Trust's principal participating interests at the year end were as follows:

Companies	Country of registration	Principal activity	Class of shares held	Percentage of shares held
P/F Smyril Line	Faroe Islands	Principal North Atlantic passenger and freight ferry link	DKK 100,000	<6%

8 Loans to local industry

	£000
<i>Cost</i>	
At beginning of year	4,157
Written off in year	(485)
Repayments	(782)
	<hr/>
At end of year	2,890
	<hr/>
<i>Provisions</i>	
At beginning of year	2,442
Released during the year (net)	(754)
	<hr/>
At end of year	1,688
	<hr/>
<i>Loans net of provisions</i>	
At 31 March 2013	1,202
	<hr/> <hr/>
At 31 March 2012	1,715
	<hr/> <hr/>

Notes (continued)

9 Debtors

	2013 £000	2012 £000
Trade debtors	256	283
Tax recoverable	180	164
Prepayments and accrued income	185	181
	<u>621</u>	<u>628</u>

10 Creditors: amounts falling due within one year

	2013 £000	2012 £000
Amount payable to Shetland charitable bodies	1,069	1,754
Current taxation	-	359
Sundry creditors	-	45
Accruals and deferred income	83	65
	<u>1,152</u>	<u>2,223</u>

11 Contingent liabilities

The Trust has guaranteed certain loans granted to various local businesses by the Shetland Charitable Trust. At 31 March 2013, the total value of loans guaranteed by the Trust was £151,018.

12 Related party disclosures

The Trust has taken advantage of the exemption available in Financial Reporting Standard 8 "Related Party Transactions" not to disclose any transactions with entities that are part of the Group which would qualify as related parties, on grounds that it is a subsidiary where 90% or more of its voting rights are controlled within the Group, and the consolidated financial statements are publicly available (Note 12).

13 Ultimate parent undertaking and controlling party

The ultimate parent undertaking and controlling party is the Shetland Islands Council, Town Hall, Upper Hillhead, Lerwick, Shetland, ZE1 0HB. Copies of the Council's consolidated financial statements can be obtained from the above address.