

**Development Committee****4 October 2016****Local Development Plan Update Report**

Report No: DV-50-16-F

**Report Presented by Executive Manager -
Planning****Planning Service
Development Services Department****1.0 Summary**

- 1.1 This report provides an update on the next Shetland Local Development Plan (LDP2) and Supplementary Guidance (SG).

2.0 Decision Required

- 2.1 That the Development Committee NOTES the programme and priorities in respect of LDP2 and SG set out in this report.

3.0 Detail

- 3.1 This report sets out the progress on the next Shetland LDP and the SG associated with the existing LDP, as requested by the Development Committee on 25 March 2015.
- 3.2 The Council adopted the Shetland LDP in September 2014 and work on associated SG is ongoing. Work on LDP2 commenced in January 2015 and the timetable for progressing this and the opportunities and means of community and stakeholder engagement, form the Development Plan Scheme (DPS), approved by the Development Committee on 15 March 2016 [Min Ref: 11/16].
- 3.3 The main statutory stages in the preparation and delivery of the Shetland LDP are:
- Publication of the Development Plan Scheme (updated annually)
 - **Pre Main Issues Report (MIR) Evidence Base Gathering**
 - Main Issues Report and draft Environmental Report consultation.
 - Prepare and Publish the Proposed Plan, alongside the Strategic Environmental Assessment (SEA) and other impact assessments

- Consider and respond to representations to the Plan
- Submission of the Plan to Scottish Ministers
- Examination
- Adoption of the LDP, Environmental Report and Action Programme
- Implementation, Monitoring and Review

3.4 **Development Plan Scheme (DPS)**

Development Committee approved the updated DPS at its meeting on 15 March 2016 and this provides the timetable for the key milestones (MIR consultation, publication of Proposed Plan and Submission to Ministers).

3.5 **Staffing**

We have recently appointed a new Team Leader to the Development Plans and Heritage Team. However we are now in a situation where we have two vacant Planning Officer posts within the team. Recruitment to these posts will commence shortly.

3.6 Progress since my previous update report is as follows:

3.6.1 **Knab Development Brief**

- The public consultation on the Development Brief closed at the end of August. Comments made during this process have informed the final version of the brief, which is presented as a separate agenda item to this meeting.

3.6.2 **Architecture and Design Scotland Visit**

- We have recently co-ordinated a visit from Architecture and Design Scotland (A & DS) where several productive meetings were held relating to current and future Masterplanning projects. A & DS also provided a half day training session to the service on Masterplanning in a Shetland context. As a result of these meetings A & DS have agreed to assist and advise in the formulation of both the Masterplan Tender Brief and the Masterplan itself for the Knab Development Site.

3.6.3 **Engagement**

- We are due to have stakeholder meetings with Scottish Environment Protection Agency, Scottish Water and Scottish Natural Heritage during October 2016 to update them all on our progress to date, the new DPS and to discuss their involvement and roles in LDP2.
- We have established regular links with HIE and are partners in a current consultation with local business and industry on future land use requirements/aspirations.
- We have been regularly engaging with the other services within Development Services team during both the Place Standard consultation process and the Housing Needs and Demands Assessment process. Both of these project areas will provide evidence base to our LDP.

- We are working with the Council's Communications team to establish a programme for publicity in order to increase levels of engagement in the LDP2 process. Currently the emphasis is on maximising engagement during the Call for Sites process.

3.6.4 Call for Sites

- Due to a number of factors including, the publication of the Independent Review of Planning, ongoing staff vacancies, and awaiting the publication of key evidence base reports – Place Standard Consultation Response, HNDA Final document, the timetable for seeking the Call for Sites submissions has slipped. A three month submission period is now timetabled for early 2017, with assessment continuing into quarter two of 2017.

3.6.5 Action Programme

- Work has commenced on our biennial update of the Action Programme. Questionnaires have been sent out to all developers/landowners with sites included in the LDP seeking a status update on their sites. While contacting landowners and developers regarding their sites the opportunity was taken to inform them of the forthcoming call for sites process. The updated Action Programme is due to be submitted to the Scottish Government in December this year.
- Work on the Staney Hill Masterplan – we are part of the Stakeholder Group formed to assist in the delivery of the Masterplan. We have recently taken part in a Design Forum co-ordinated by A & DS. It is expected that the Planning Service will become increasingly involved as the Masterplan progresses towards completion.

3.6.6 Spatial Strategy

- Sufficient evidence base information has now been received to allow the Development Plans team to commence work on establishing the spatial strategy for the LDP. The Spatial Strategy establishes in general terms the areas for development and future growth across the local authority area. The Team intends to work closely with other services across the Council, particularly Community Planning, Housing and Transport and with key stakeholders in order to establish a Spatial Strategy that reflects the future intentions of the Council and the Shetland Community. A draft of the Spatial Strategy will be brought to the Development Committee for approval in 2017.

3.6.7 Planning Review

- The Independent Review of Planning was published on 31 May 2016. The Scottish Minister's published their response to the Independent Review of Planning on the 11 July 2016. As part of this response they published a programme of collaborative working, as a result of this and the islands' specific issues raised in both the report and the Ministers response we have been working closely with OIC and WIC to make sure the outcomes of the review reflect the specific challenges relating to Planning that Island Authorities face.

3.6.8 Base line, Audit and Monitoring

- Work is near completion of the housing and employment land audits, which are important elements of the evidence base for the LDP. A Briefing note containing this year's reports is expected to be published in November 2016.

3.6.9 Supplementary Guidance

- **Placemaking** – The Placemaking SG was submitted to the Scottish Government on 4 July 2016. We are currently having discussions with the Scottish Government regarding the title of the document to ensure compliance.
- **Aquaculture** – Re-consultation on this SG was completed at the end of August. We are currently working through the consultation response. It had been hoped to present the final documents at this Committee however there is an issue regarding new policy content which we are awaiting clarification on from the Scottish Government following the chief planner's letter of Jan 2015.
- **Works Licence** – Re-consultation on this SG was completed at the end of August. We are currently working through the consultation response. It had been hoped to present the final documents at this Committee however there is an issue regarding new policy content which we are awaiting clarification on from the Scottish Government following the chief planner's letter of Jan 2015.
- **Residential Parking** – Work on this SG has re-commenced. It is our intention that we will use the pre-engagement model for this SG, involving early engagement with architects, agents and developers, which proved successful for the Placemaking SG. It is anticipated that a draft SG will come before this Committee first quarter of 2017.
- **Access Standards** - Work on this SG has re-commenced. It is our intention that we will use the pre-engagement model for this SG, involving early engagement with architects, agents and developers, which proved successful for the Placemaking SG. It is anticipated that a draft SG will come before this Committee first quarter of 2017.

- **Open Space** –The Open Space Audit, which is the evidence base to support this SG has been completed. has been completed. Work on the drafting of the SG document has re-commenced.
- **Wind Energy** – The content of the SG has now been updated to reflect the consultation responses, work on the associated SEA is progressing.
- **Local Landscape Areas (LLA's)** – The Working group are continuing to meet to progress the updates required on this SG.

4.0 Implications

Strategic

- 4.1 Delivery on Corporate Priorities - The Shetland LDP will become the strategic tool for the Council's spatial development priorities. In conjunction with other Council policies it will contribute to meeting the spatial aims of the Community Plan and the Corporate Plan.
- 4.2 Community/Stakeholder Issues – The Consultation process required as part of the LDP process has been set out in the DPS. Community and Stakeholder engagement commences at the earliest stages of plan preparation and continues throughout the development of the plan.

Pre-engagement with key agencies:

SNH, SEPA, Scottish Water, HIE, ZetTrans, Crofting Commission, Shetland Health Board and Historic Environment Scotland.

Pre-engagement with non-key agencies, that must be afforded the same level of involvement in the development plan process:

Transport Scotland, Forestry Commission Scotland and Marine Scotland.

- 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 LDP forms part of the Council's strategic policy framework as referred to in Section 3(2) of the Governance procedures.

- 4.4 Risk Management – An up to date LDP will ensure the Council can support developments that are in line with its priorities, and avoid 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. As part of the plan making process the LDP content will be subject to an Equalities Impact Assessment.

- 4.6 Environmental – As part of the plan making process the LDP content will be subject to a SEA. The Planning Authority is also subject to the overarching 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 – There are no direct financial implications arising from this report and all costs relating to the LDP process are met within existing budgets.
- 4.8 Legal – None.
- 4.9 Human Resources – Work undertaken as part of the LDP process will be undertaken by established posts.
- 4.10 Assets and Property – None.

5.0 Conclusions

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

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Date cleared: 28 September 2016

END



**Development Committee
Shetland Islands Council**

**4 October 2016
3 November 2016**

Knab Campus Development Brief

Report no: DV-51-16-F

**Report Presented: Executive Manager -
Planning**

**Planning Service
Development Services Department**

1.0 Summary

- 1.1 The purpose of this report is to present the final Knab Campus Development Brief (The Brief) following the formal consultation period.
- 1.2 The document, once adopted, will form non- statutory Supplementary Guidance to the Local Development Plan (LDP).

2.0 Decision Required

- 2.1 That the Development Committee RECOMMEND to the Council that it resolve to adopt the Knab Campus Development Brief (Appendix 1).

3.0 Detail

- 3.1 Development briefs are strategic documents produced for a place or a site. It forms the basis of a dialogue between developers and the local authority. The Brief provides key guiding principles for development and gives a clear indication of the known constraints and aspirations for the site.
- 3.2 The Knab Campus site is included as a Site with Development Potential within the Shetland Local Development Plan (LDP), adopted September 2014. The Planning Authority has a responsibility to facilitate delivery of sites included in the LDP. Key strategic sites such as the Knab Campus merit the additional focus of a Development Brief.

- 3.3 The Brief will become non-statutory Supplementary Guidance to the Local Development Plan and therefore a material consideration in any Planning application submitted for the site.
- 3.4 The Brief informs any masterplan which is subsequently undertaken for a development site. A masterplan describes in more detail how the proposal will meet the vision and how development will work on the ground.
- 3.5 In this instance, due to the scale and complexity of this brownfield site, the production of a masterplan would be the recommended next step.

4.0 Consultation

- 4.1 The public and stakeholder consultation period ran from 15 July 2016 to 26 August 2016. During that time the Draft Brief was widely advertised by the Council and by the local press.
- 4.2 A total of 25 representations were received during the consultation period. A summary of the representations received and responses and actions are attached to this report in Appendix 2.
- 4.3 All comments have been considered and changes to the Brief have been made where appropriate. We do not consider any of these changes to be significant.

5.0 Implications

Strategic

- 5.1 Delivery on Corporate Priorities - Progress on the re-development of the Knab Campus is included in the Development Service Plan.
- 5.2 Community/Stakeholder Issues – Community and Stakeholder engagement was initially sought during the Visioning exercise. Community and Stakeholder views were again sought during the 6 week consultation period and have been addressed and fed into the Brief as appropriate.
- 5.3 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.

However, determining the overall goals, values and strategic framework, or matters of Policy, is reserved to the Council.

- 5.4 Risk Management - The risk of missed opportunities through failing to plan for the Knab Campus is included on the Council's Risk Register.
- 5.5 Equalities, Health and Human Rights - This Brief supports various objectives set out within the Community Plan, which includes the provision of safe and healthy communities.

- 5.6 Environmental - The LDP was subject to the SEA process, this site as part of the LDP was therefore included in that assessment. This Brief will go through the normal SEA procedures for a document of this type.

Resources

- 5.7 Financial – None.
- 5.8 Legal – None.
- 5.9 Human Resources –The work on this brief has already and will continue to require a significant input from the staff of the Planning Service.
- 5.10 Assets and Property – The development of this site will have a significant impact on the Council's property and assets, the full extent of which is unknown at this time.

6.0 Conclusions

- 6.1 The report presents the Knab Campus Development Brief and outlines amendments made as a result of the public and Stakeholder consultation. The report seeks adoption of The Brief by the Council as Non-Statutory Supplementary Guidance.

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Date Cleared: 28 September 2016

List of Appendices

Appendix 1: Draft Knab Campus Development Brief
Appendix 2: Representations – Summary, Responses and Actions

Background documents:

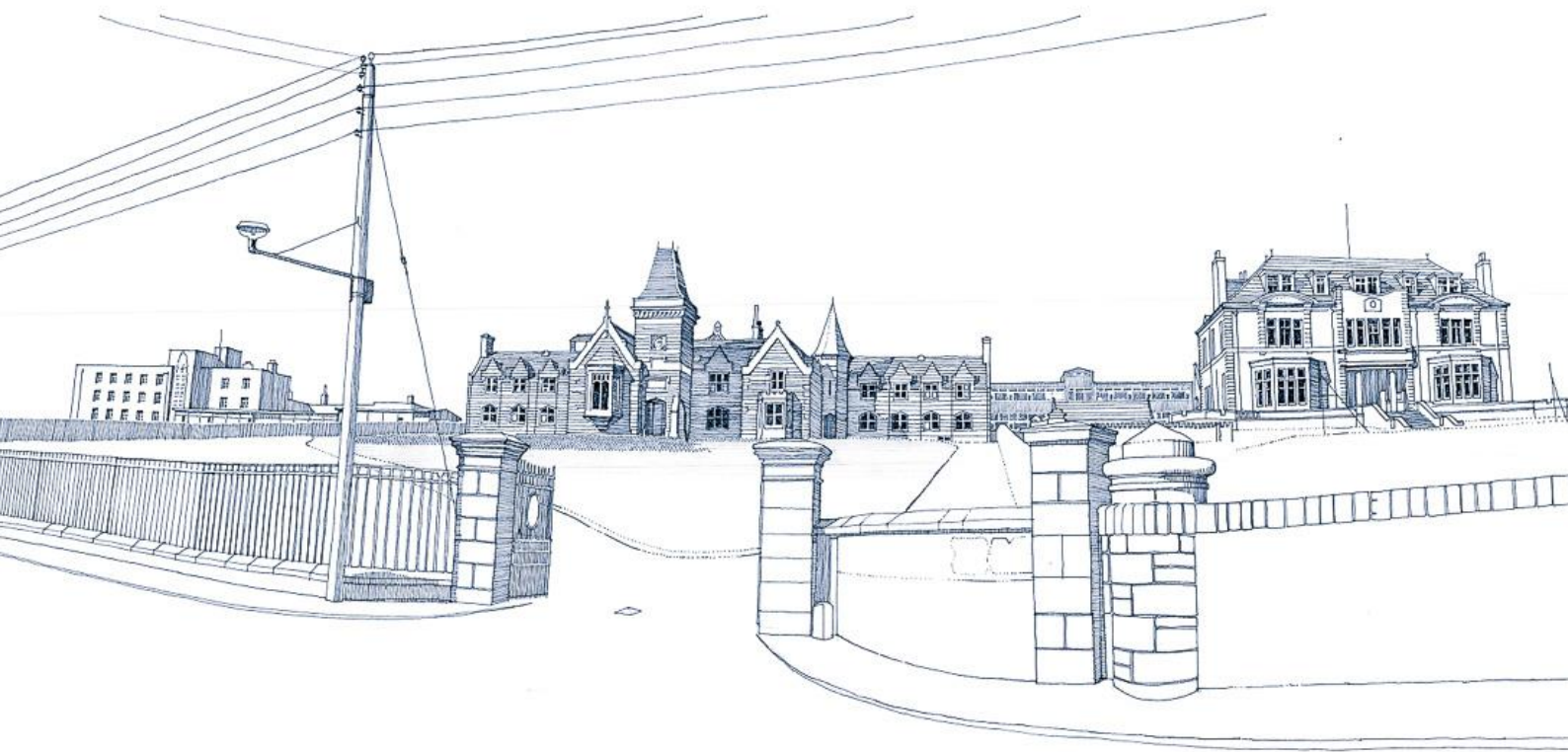
None.

END

Appendix 1 (DV-51-16)

DRAFT Development Brief

Knab Campus, Lerwick



1 Introduction



Purpose of the Brief

The site currently used as a High School and student accommodation Campus. A new school Campus is due to be completed in late 2017 and this site will become vacant by the end of 2017. The site is a large and prominent site within Lerwick Town centre, the Council as major landowners on the site are keen to see re-development of the area.

The area covered by this Development Brief has been identified as a Site with Development Potential within the Shetland Local Development Plan, adopted September 2014. The Shetland Local Development Plan sets out the Council's vision and spatial strategy that recognises existing development and promotes sustainable economic growth. The strategy is supported by a framework for delivery, The Action Programme. Facilitating and enabling the progress of sites with development potential listed in the Action Programme from aspiration to completion is a responsibility of the Planning Service.

Architecture and Design Scotland were engaged to facilitate a visioning exercise for the development brief site in June 2014, this resulted in a final report which represents the combined thinking of the 3 workshops and sets the scene for further action to be taken by the Council in preparing the site for re-development.

It was evident that the most desirable outcome for the site would be for the creation of well designed, integrated, residentially compatible mixed use development on the site.

The Development Brief builds on the outcomes from the Visioning Exercise. The Development Brief will give a clear indication to any future developer of the known

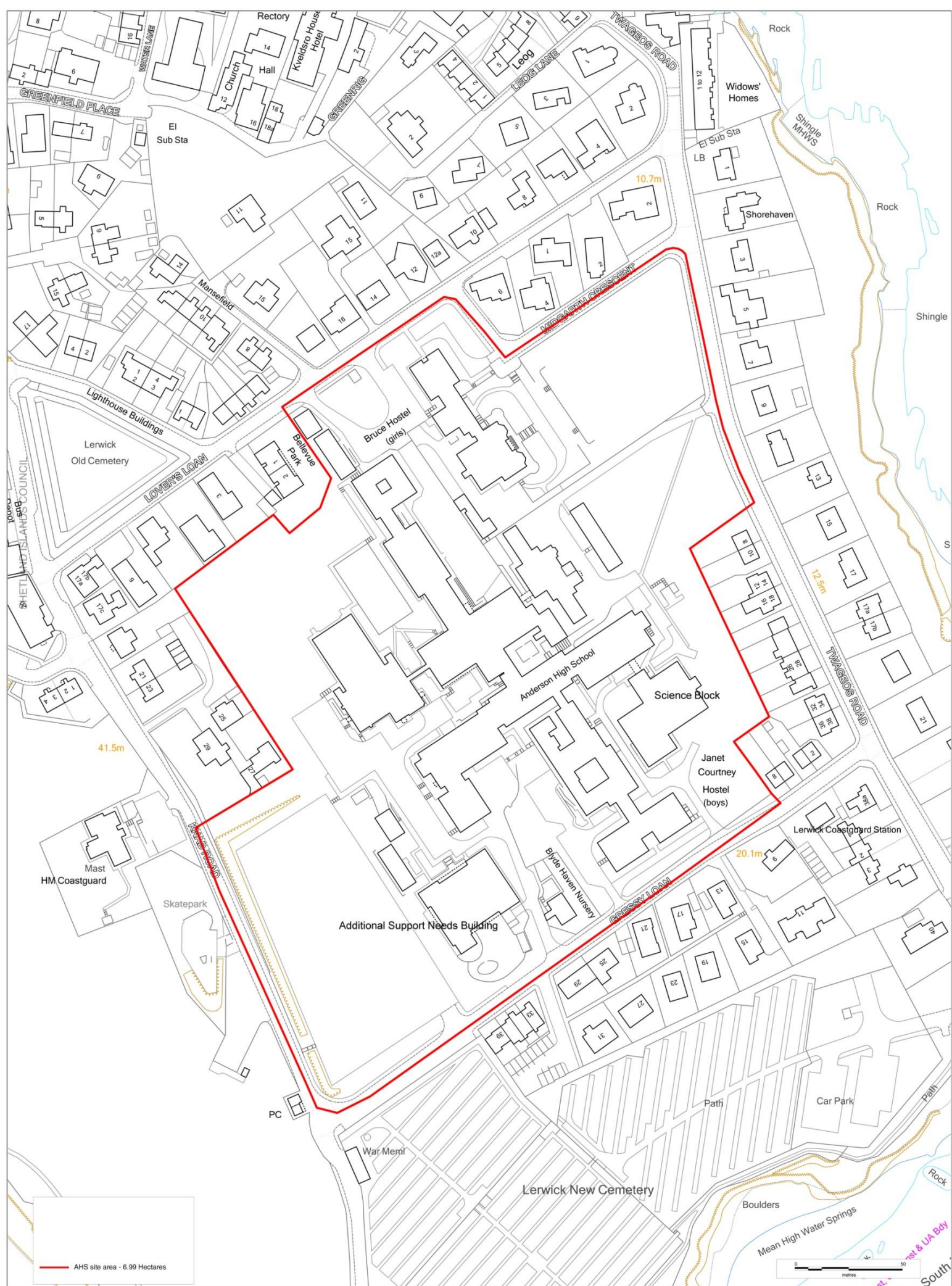
constraints and provides key guiding principles that will need to be delivered to ensure the aspirations from the visioning exercise are delivered upon.

Status

This Development Brief is non statutory Supplementary Guidance to the Local Development Plan and will form a material consideration to any planning application submitted relating to all or any part of the site.

This guidance will not be applied retrospectively to applications within the boundary of the Development Brief site which have already received planning consent.





2 Site Analysis

Location and setting

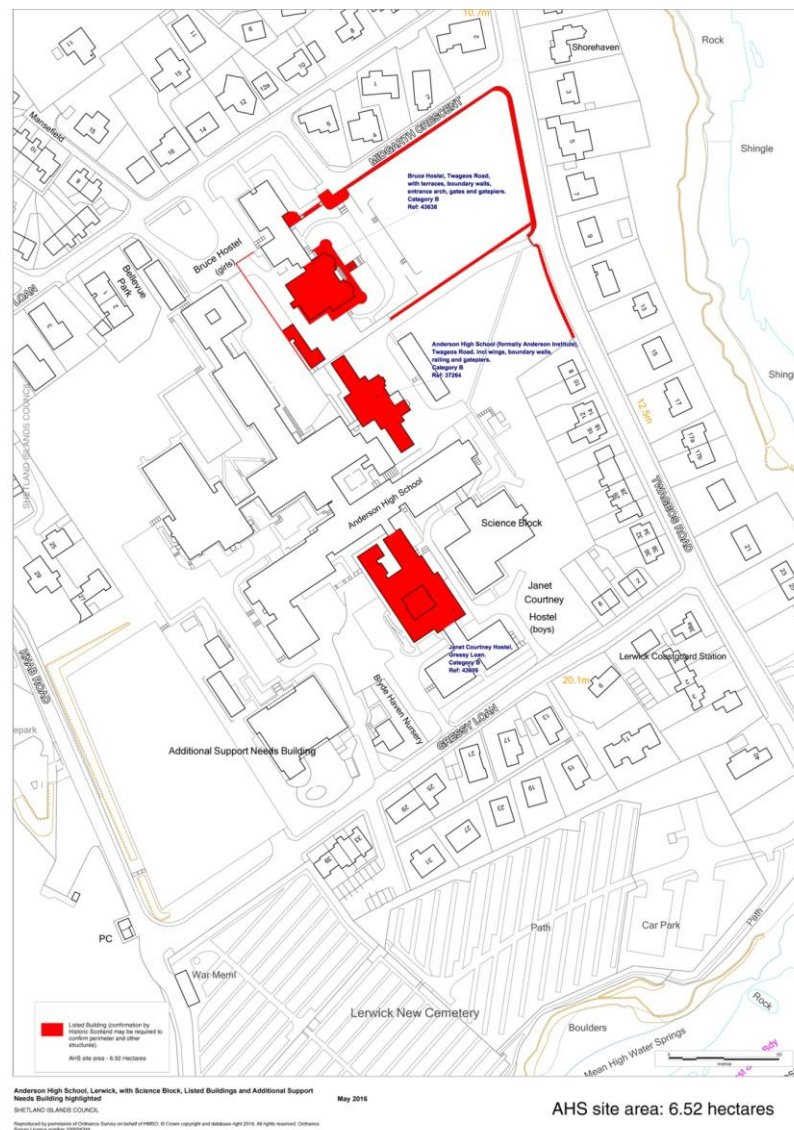
The site is located in the east part of Lerwick; it lies just outwith the Lerwick Lanes Conservation area but includes a number of listed buildings.

Listed buildings within the site are as follows

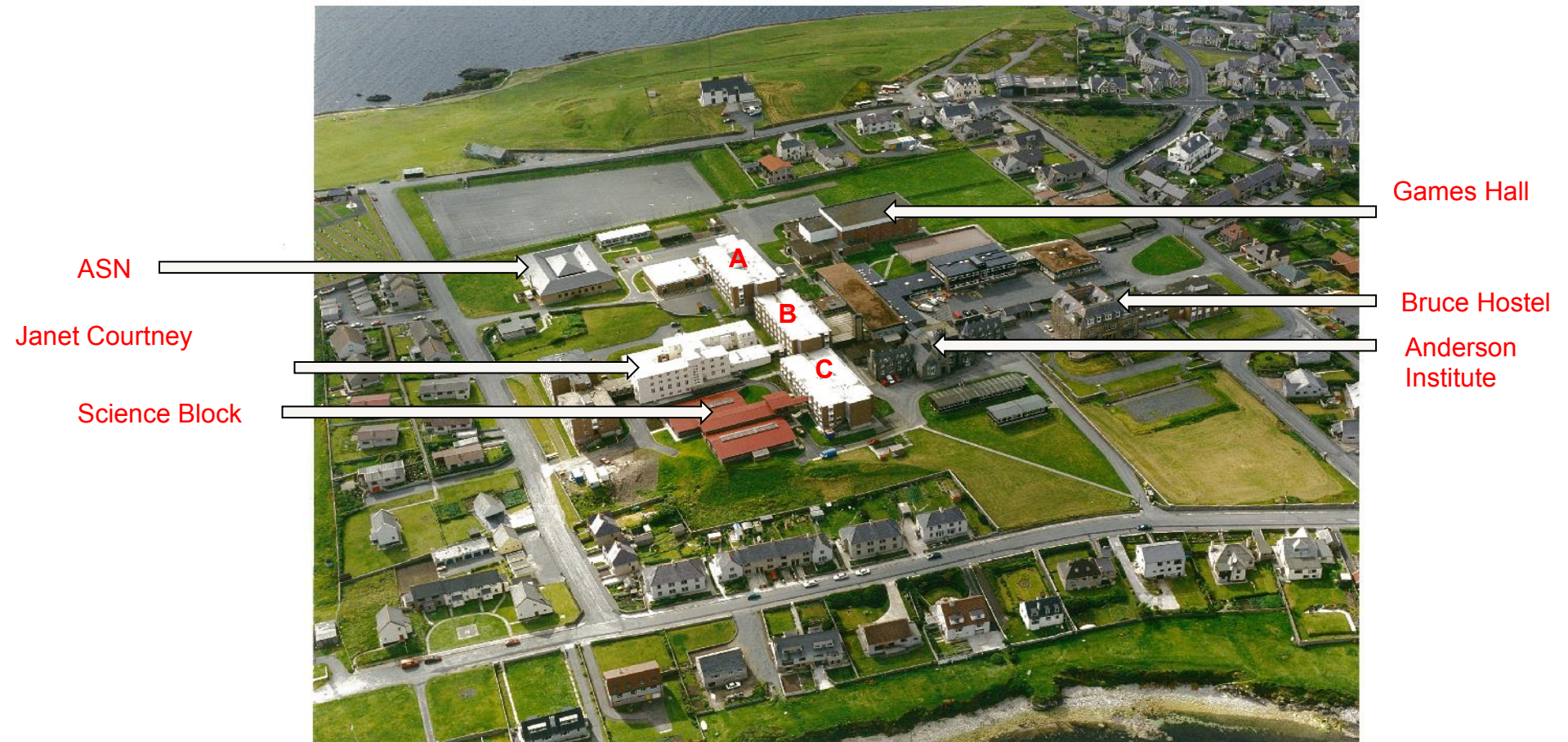
- **Janet Courtney Hostel** and Terrace. Built 1939. Category B
- **Anderson High School (formerly Anderson Educational Institute)** including wings, boundary walls, railing and gate piers. Built 1860-1, alterations 1924. Category B.
- **Bruce Hostel** with terraces, Boundary Walls, Entrance Arch, Gates and Gate piers.

The boundaries of the area the Development Brief covers and the location within the site of the 3 listed buildings are highlighted in Map 2

Map 2



Building Conditions



- Once the existing school has vacated the site there will be a number of buildings remaining, the condition of these buildings varies. A summary of these buildings and their requirement for retention, availability for re-development and opportunity for demolition are detailed below:
- Condition of the existing buildings varies significantly, with the science block and ASN building being in the best condition, having been well maintained at all times, and the original (listed) Bruce Hostel being in the worst condition. It is estimated that it would take approximately £1m to bring this building up to a condition where the masonry is sound and the roof and glazing are free of defects. This would not allow for internal works.
- The other listed buildings are in sound condition although would benefit from enhanced levels of routine maintenance. All the listed buildings must remain, although strictly speaking only the facade of the Janet Courtney Hostel is listed – not the internal layout.
- There may be some potential to reconfigure/ refurbish the frames of the CLASP buildings (AB & C Block on the above plan) however any such intervention would need to be on an appropriate scale.
- Other than the buildings listed above, it seems likely that the will be demolished early in the course of re-development. The nature of the spaces, the area occupied versus accommodation density and the condition of much of these buildings would suggest that re-modelling would prove challenging.

Facilities

- Understanding the facilities currently available within and in the immediate vicinity of the site helps new development to complement and integrate with existing areas of the town.

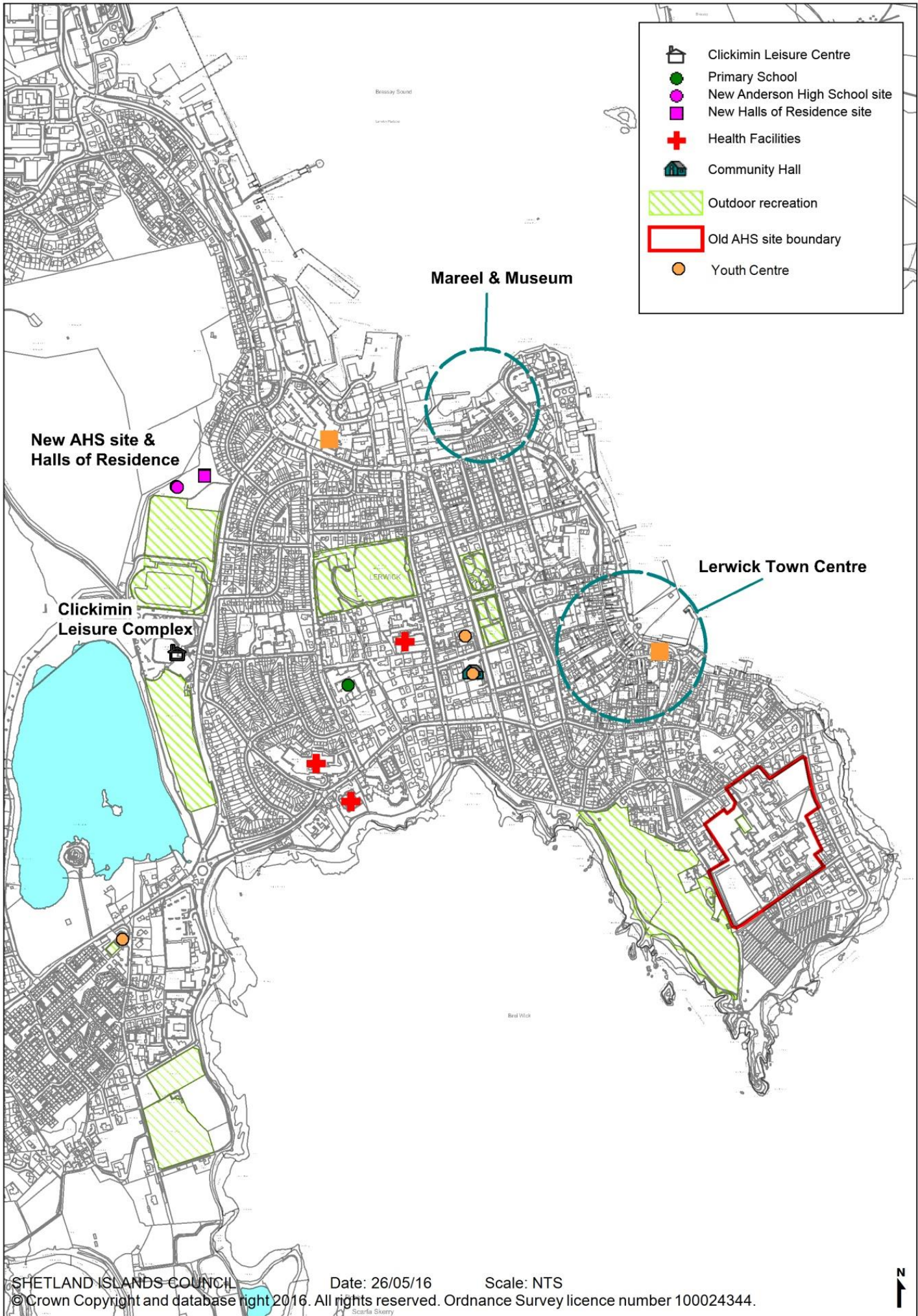
Utilities:

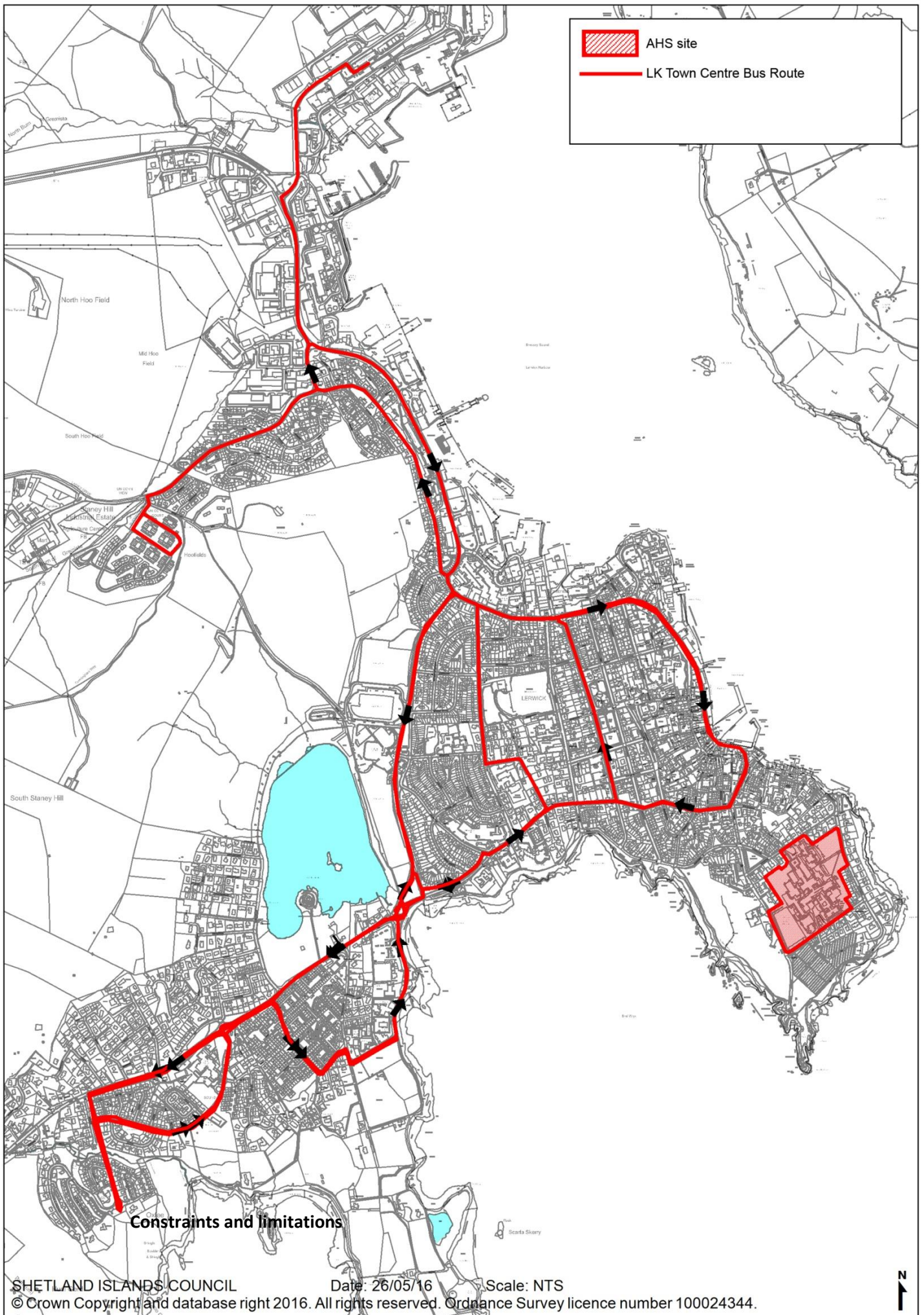
- **Scottish Water** – No capacity issues raised, but formal guidance can only be provided once detailed proposals for development are available. Surface water disposal would require a SuDS scheme or alternative technical solution. The developer would be liable for all infrastructure costs.
- **Scottish and Southern Electricity** – No capacity issues raised.
- **Shetland Heat, Energy and Power** – Capacity can only be formally addressed once detailed scheme proposals are developed. System is close to capacity at present though and there may be insufficient pressure available to reach all parts of the site.

- **Shetland Telecom/BT Fibre Optic Services** - Shetland Islands Council has fibre optic cables on the site (which needs to be preserved during any building/demolition). Shetland Telecom could therefore provide fibre optic services on the site after it ceases to be a school

BT also has services in that part of Lerwick. These include FTTC (Fibre to the Cabinet, copper last mile) and Ethernet (business standard connections).

- **Community Facilities** – The Site is located close to Lerwick’s main town centre, adjacent to the Town Graveyard and the Knab 9 hole golf course and recreational park area. There are several walking routes and at least 1 public right of way in the nearby vicinity. The site is in close proximity to a number of the Town’s community facilities such as the Town Hall, Public Library, Islesburgh Community Centre, Mareel Cinema and Music Venue and Shetland Museum. Bells Brae Primary School, The Clickimin Leisure Centre and the new Anderson High School Campus are all accessible either by means of walking, public transport or car. This site is well served by Community facilities and is well connected to Lerwick. Details of the location of key community facilities can be seen on Map 3 below.
- **Public Transport** – There will be no change to service bus routes in and around the vicinity of the site. The current bus stops are highlighted on map 4.





There are very few sites which come forward for development which are completely without constraints. While some constraints prevent development within a particular portion of a site not all constraints hinder development and it is the responsibility of the developer to work with them rather than against them to produce a high quality development.

There are several military remains in close proximity but outwith the boundaries of this site. Three of these are designated as scheduled ancient monuments (The Knab Torpedo Platform; A coastal Battery and A Gun Emplacement. Development on the site is unlikely to have an impact on those military remains out with the site boundaries.

As a result of a previous application for a new secondary school building a programme of archaeological research and limited trial trenching was carried out. The results found that development on the part of the site then proposed for re-development posed no direct threat to any known archaeological or built heritage features. There is evidence both documentary and from trial trenching that the site has been substantially disturbed in the past.

The Site has not been subject to a full archaeological study however and therefore the possibility that features of interest may still survive under the grounds surface cannot be discounted. The archaeological potential of the site remains unknown and as such it is recommended that further archaeological work be required in advance of any development.

Any potential developer should speak to the Shetland Archaeologist at the Shetland Amenity Trust for further information.

- **Listed Buildings** – Historic Environment Scotland undertook a site visit and walkover of the site in May 2016. This was followed up in writing with comments on the existing listed buildings, potential future uses of both the building and the site as a whole.

Setting of listed buildings: The grassed sloping area to the east of the site should be kept free of future development. The removal of the existing ‘huts’ would be desirable and would provide a significant improvement to the setting of the listed buildings, the Anderson High School building gaining the most from the removal of these buildings.

Key views to and from the listed buildings are from/to the east. Views from the west and south are less of a consideration in terms of the impact on the setting which would arise from any future development.

Specific Comments on listed Buildings:

Bruce Hostel: Any redevelopment of this building should retain the sizes and features of the main rooms on the main (ground) floor. Of note is the wood panelling and central stair case.

The existing extension to the north sets the precedent for any new extension which may form part of any re-development of this building. The use of a single story link

corridor between the existing listed building and any new extension is a desirable way to allow for additional footprint while keeping the distinction clear between the modern and the original buildings. A more recessive pattern of materials and finishes on any extension would be more respectful to the character of the listed building.

With regard to potential suitable uses for the building a hotel may be the best way of giving future life to the building whilst still preserving the larger rooms and their features.

Anderson High School: Any redevelopment of this building should retain the key internal spaces and architectural features of this building.

With regard to potential suitable uses for the building it would be desirable for the building to be retained in a public or semi-public use.

Janet Courtney: The external appearance of this building has not changed much since it was built in 1939. As such any improvements to its appearance would be limited to freshening up the exterior paintwork.

If re-development in the vicinity of this building was to occur it would be desirable to see it positioned so as to open up the views of the main facade and be more sensitive to promoting the clean lines of the original building than is present currently.

The existing extension to the south sets the precedent for any new extension which may form part of any re-development of this building. The use of a subservient link corridor between the existing listed building and any new extension is a desirable way to allow for additional footprint while keeping the distinction clear between the modern and the original buildings. A more recessive palette of materials and finishes on any extension would be more respectful to the character of the listed building.

There are no restrictions in terms of the listing on any re-development of the interior of the building and as such of the 3 listed buildings on the site this building has the most options available to it for re-use.

Views on Future development on the site:

While it is desirable to maintain the open space to the east of the 3 listed buildings there is considerable scope for development to the west. Due to the topography of the site it is thought that buildings of a reasonable height could be accommodated in this location without unduly affecting the distinctive silhouette of the 3 listed buildings.

Historic Environment Scotland note that there is some merit in the design of the post war buildings they would not be seeking to see any of them retained.

The 1970's buildings are not particularly sympathetic in material finish of design to the existing listed buildings and whilst re-development on the same foot print could be acceptable some attempt to make them more sympathetic to the listed buildings would be sought. Suggested improvements include reduction in height of any development on the footprint of the existing ABC block and perhaps reduction in the

footprint to remove the area which currently breaks forward from the current building line of the listed structures immediately to the south of the Anderson Educational Institute building.

A more recessive palette than that currently in place would significantly improve the setting of the listed buildings.

Historic Environment Scotland would seek to be part of any discussions that arise and have the opportunity to comment on any proposals.

- **Access/Egress** – All access routes have constraints, the ability to improve them is limited due to the built up nature of the area.

There is the ability to create a new access on the west of the site onto Knab Road which would increase traffic flow through

The site and may lead to a reduction on the use of some of the existing access points.

It is undesirable to see any significant increase in traffic at the Twageos road access point.

It would be desirable to see a decrease in traffic using the Lovers Loan/Lighthouse Buildings junction.

Changes in traffic flow and quantity may be achieved by the creation of a new access point.

The current use of the site as a High School leads to peaks in traffic as people arrive in the morning and leave in the afternoon, if future proposals for the site are for mixed use it is likely that any peaks in traffic flow will be reduced.

Further survey work on existing traffic flow and junction capacity is currently being undertaken and will inform the next stages of developing this site. However, research undertaken by Roads Services from previous traffic data would indicate that access should not be a significant constraint, particularly if the proposals for the site are for mixed use as detailed above. The position will be better understood when the survey work currently being undertaken has been completed.

- **Ownership** – The Council has unencumbered title to most of the site. There are some areas where title burdens exist but where these are currently being discharged. Two titles continue to have conditions outstanding and the Council will need to be clear as to the nature of future use of the land and buildings before these can be addressed. Initial contact with those having an interest in these areas would suggest that discharge of the burdens will not be problematic.
- **Flood Risk** – SEPA have identified that small areas of the site have been identified as being at medium to high risk of flooding, though there are no records of any historic flooding within the site. There are records of historic flooding in Twageos Road. This is not seen as a significant constraint as measures to mitigate any potential flooding

which may arise from re-development of the site will be managed during the drainage infrastructure design process.

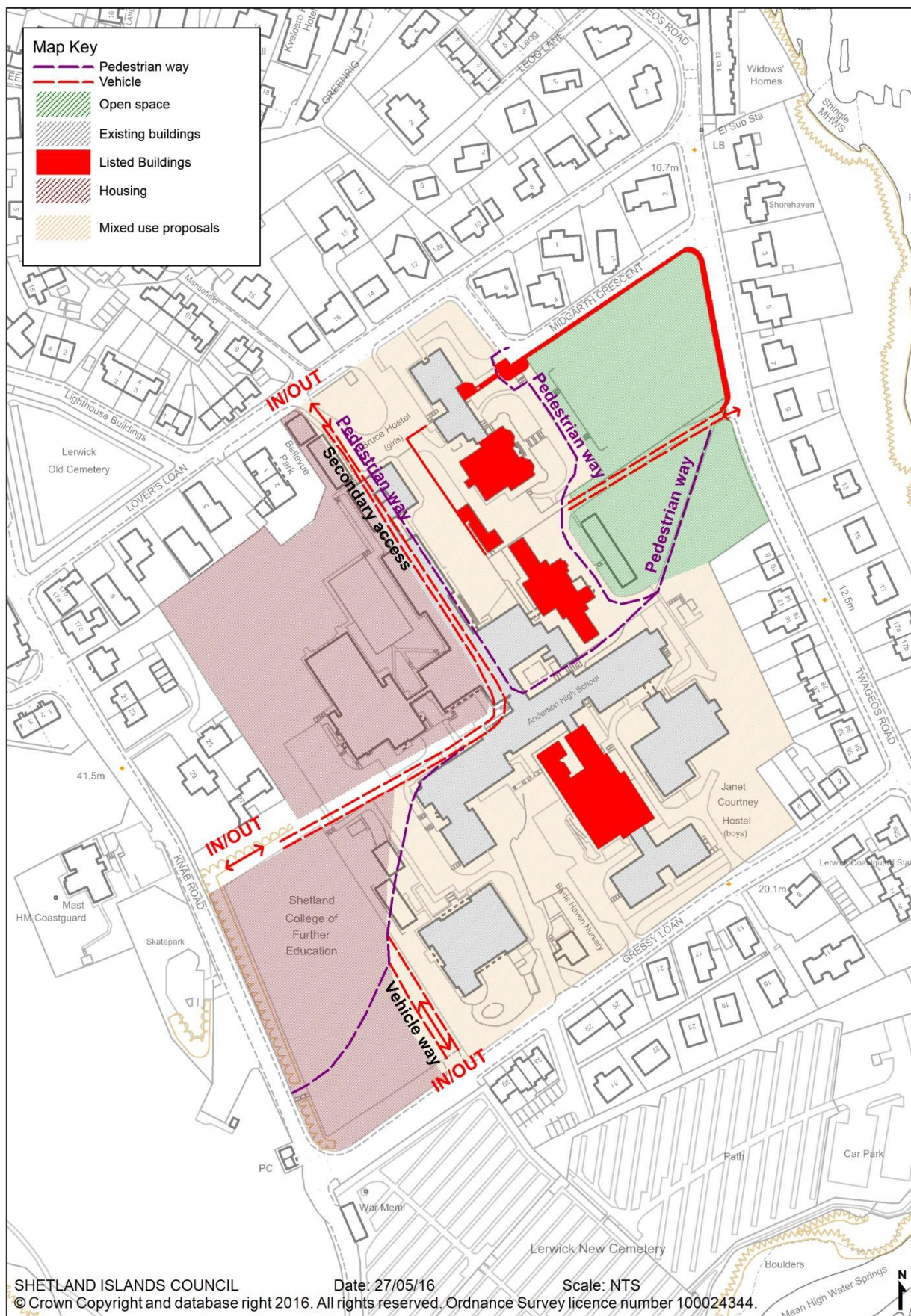
3. Site Aspirations

Taking into account the feedback received from the Visioning Exercise the following uses have been identified as both suitable and desirable for the site:

- **Housing – Housing of mixed size, density and tenure.** This means that a mixture of detached, semi-detached, terraced or flatted housing are all options within the site.
- **Residentially compatible business and industry -** This is business and industry which can be co-located in or nearby housing without causing any negative impact on residential amenity. The exact nature of any businesses on site has not yet been defined and will be subject to further research and consultation.
- **Educational** – During the visioning exercise there was mention of the desire for many to see the site retained in some capacity for educational use of some variety. Research into the demand, need and opportunity for such a use on the site will continue into the next phase of planning the re-development
- **Tourist accommodation/hotel** – This was seen as an option for some of the Listed buildings on the site. The Planning Authority welcomes this as an option on the site. There are various types of tourist/visitor accommodation and further research into what is viable would need to be undertaken by any developer
- **Open space/recreational space** – There are large areas of open space within and surrounding the existing site. It is desirable for some of these to be retained. Historic Environment Scotland has indicated its preference for the area to the east of the listed buildings to remain as open space. The Planning Authority is in agreement with this. The design and appearance of these open spaces have not yet been specified.



Map no. 5 gives an indication of the breakdown of potential uses on the site. At this stage it is important to note that this plan is purely indicative and may be subject to significant changes as the design stage of development of the site progresses.



Re-development of this site should be a high quality , sustainable, well designed space which meets the needs of those who will live and work in the area. The Development should meet the Scottish Government’s Placemaking aspirations and those identified through the visioning exercise.

In determining any future planning applications for development in the Development Brief area the Council will expect the following issues to be reflected and incorporated in any development proposals:

A High Quality Place:

This development should be a place:

- Which will, where possible, re-use or make use of existing resources. This does not mean that buildings should be retained at the expense of creating a better development.
- Which will be designed so as to take into account climate change and may include measures such as siting developments to provide shelter from the prevailing wind or using designed shelter and or to maximise solar gain
- That considers the needs of people before motor vehicles.
- Where active travel choices such as cycling, walking and public transport should be promoted.
- Where paths and routes should be developed within the site which connect those living and working within the area not only to other parts of the development but to areas outwith the site and beyond. In particular good connections to the Knab recreational area and Lerwick Town Centre and to public transport are essential.
- That is safe and pleasant, attractive to use and provides a sense of security
- That provides spaces that are easy to move around and promote good accessibility.
- That is adaptable to future changes in the way people will choose to travel and provide homes buildings that can adapt to future needs.
- That includes landmarks and vistas to help people navigate the area, and creates a welcoming place using public art in key locations

Respects and Preserves the Existing Special Qualities

This development should be a place:

- Where existing distinctive built forms are celebrated. Where the listed buildings are a focus and surrounding development compliments these historic buildings.

- Where the existing character of the site and its surrounding neighbourhood is taken as a reference for the re-development. Where mass and density form compliments, enhances and supports the existing surrounding development. This does not necessarily mean that existing densities, or uses shall be replicated.
- Where building design, public art and open space reflect the character, history and communities within the area.
- Where there is a mix of soft and hard landscaping, where biodiversity is encouraged and any planting that is undertaken uses plants native/proven to be hardy/successful in the Shetland environment.
- **Densities and Design:**

This development should be a place:

- Where developments on this site will be of mixed use and depending on needs will be of varying density.
- The opportunities the topography provides are maximised to deliver the best mix of building styles, sizes, types and tenures.
- Where existing buildings which remain on the site are well integrated into any new development which takes place.
- Modern and innovative design is encouraged, helping to create a unique identity for this new part of Lerwick whilst taking its inspiration form its immediate environs.



4. Developer Requirements:

In determining the future planning applications for development in the Development Brief Area , the Council will expect the following of any developer:

- Proposals to comply with the Shetland Local Development Plan 2014 and all relevant associated Supplementary Guidance
<http://www.shetland.gov.uk/planning/LocalDevelopmentPlan.asp>
- Early Engagement with Utilities
- Early and continual Engagement with Historic Environment Scotland
- No negative or damaging impact on any of the 3 Listed Buildings (Janet Courtney Hostel, Anderson Educational Institute and the Bruce Hostel)
- Early engagement with the Shetland Archaeologist and compliance with any archaeological requirements specified by the Shetland Archaeologist
- Early Engagement with the Council's Roads Service.
- Compliance with the Councils Roads Service Policy and Guidance on new Development. <http://www.shetland.gov.uk/roads/drainage.asp>
- Developers should consider entering into a Quality Audit process with the Local Authority at an early stage.
<http://www.creatingplacescotland.org/designing-streets/process/quality-audit>
- A Drainage Impact Assessment for the site.
- A SUDS scheme which complies with the principles in CIRIA C735 - The SUDS Manual.
- Identify how heat demand for the site will be met.
- Willingness to enter into discussions and find solutions to delivering developer contributions which will benefit those living and working within and around the Development Brief Area.



Table of Responses to Consultation on Draft Development Brief - Anderson High School Campus, Knab, Lerwick

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|------------|---|--|---|---|
| | <p>Issue 1 - Suggested Uses for Site</p> <p>1</p> <ul style="list-style-type: none"> • We are interested in the current PE Dept or the science block (where I work) if these buildings will be staying. If not, an area of land that can be developed. We are trying to be part of this plan early on so we can get SportScotland on board to help us if needed. We have had initial meetings with them and they seem positive to help if we need to refurbish an existing building or build a new one. We can manage without them if just leasing an existing building. • We currently have over 100 young people from ages 6-18 attending 3-4 times a week and could easily double the number of hours they train plus a waiting list of 120 young people waiting to join. We are also currently holding summer camp classes at Clickimin and have about 100 children (non-club children) signed up for the summer who now want adding to the waiting list. • We also have children who cannot attend our classes due to our time restraints at Clickimin and their school finish times. • Having our own facility would mean ALL young people in Shetland who wants to participate in our sport could do, regardless of where they live in the Isles plus we could work with other sports to improve conditioning and flexibility. • Our other issue is that following the Island Games in 2017, we will be the only island that doesn't have the correct training facilities so we will always be at a huge disadvantage to the other Islands when competing and we want to rectify this. • Alongside a gym, we would like the opportunity to provide Shetland with a proper soft play area (such as Tumbles in Edinburgh) as an extra business. We are currently the only sports club in Shetland that runs as a business. We are not asking the SIC for any financial help, just land/building help. <p>2</p> <ul style="list-style-type: none"> • Writing for Shetland gymnastics club, looking for their own place to hold the clubs, several times a week, with over 100 children in waiting, 100 children attending a summer club, and 100 club members, these youngsters need somewhere to do their sport, an added bonus would be an extra room for soft play. Please consider space for our children and club members. <p>3</p> <ul style="list-style-type: none"> • Please take this opportunity to show some vision. Don't build anything on the site. Leave the existing listed buildings and demolish the rest. Turn it into a public park, plant lots of trees and keep it all as open space. There's plenty of land to the west of Lerwick to build houses on if that's what Lerwick needs. • Any, or all, of the listed buildings (especially the original Anderson High School) would make a fantastic art gallery and/or library and museum space. • This area of Lerwick has a unique atmosphere to it. By building something else you risk destroying that. <p>4</p> <ul style="list-style-type: none"> • I would urge the Council to consider including 'very sheltered housing' (similar to King Erik House) in the mix of uses for the Knab Campus site. • To the best of my knowledge, no other facility in Lerwick provides what King Erik House does - allowing elderly people to live as independently as possible, but with easy access to help in emergency, and with personal care and/or help with routine tasks available as and when needed. The waiting list for KEH is long, I understand, and with a high proportion of the population in older age groups, demand for this type of accommodation is likely to remain high. <p>6</p> <ul style="list-style-type: none"> • Although a mixed development may be desirable, I hope major organisations like the NHS and Shetland College can have clear chance to bid for use of the site before any partial or piecemeal development commences, as this is the last major site in Lerwick that can be easily developed. • I hope the ASN unit, games hall and science block will be re-used rather than demolished since they are of good quality. • Because of the potential for pleasant surrounding space, I think facilities for Early Years should be given consideration on the site. • The current green space East of the school should be retained and should be a public area. | <p>The Planning Service acknowledges the suggested uses for site when developing the uses of the site.</p> | <p>We acknowledge the suggestions provided for the development of this site; however we are unable to include this information within the Development Brief. The suggestions submitted will feed into the future process of developing the site which will be carried out by the developer/landowner.</p> | <p>The Planning Service will pass on these comments to the developer.</p> |

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| 8 | <ul style="list-style-type: none"> The areas marked off for "Mixed Use Proposals", to the East and to the West of The Janet Courtney Hostel (boys) looks to be large enough to accomodate a new General Hospital complex with substantial parking for vehicles. In my opinion other mixed use is well enough catered for elsewhere in and around Lerwick. The needs for a modern General Hospital with adequate parking (parking being a sore point of the existing health facility of The Gilbert Bain Hospital) is begging for a suitable site, and I would hope this might be the chance being sought. | | | |
| 9 | <p>The foregoing leads me to the view that future education needs across the public spectrum should be subject to the most rigorous re-assessment and include public opinion before relinquishing the AHS site for alternative use. It seems premature to invite public opinion on alternative use unless and until the community can be satisfied that disposing of the site for other purposes is in its interests.</p> <p>The main existing buildings are listed and are, therefore, subject to special consideration. I feel the widest possible canvass of public opinion be south to determine whether some future community statutory or voluntary sector purpose for these buildings might be realised for the common weal.</p> | | | |
| 11 | <ul style="list-style-type: none"> Shetland Gymnastics Club has been looking for at least 5 years for a suitable building/piece of land on which to run a purpose built facility. The club has outgrown Clickimin and we have had many meetings with SIC assets and planning about a suitable location for a building and all have said the AHS site. We desperately need a building, whether its the old AHS gym, the science block or a piece of land. There is no more room around Clickimin for such a facility, we have had many meetings with SRT about this over the years also. | | | |
| 13 | <ul style="list-style-type: none"> All "temporary" classrooms and buildings to the East below AEI should be removed and the space left open. Owing to the restricted access to the Site - Knab Road is the only viable access - South Commercial Street leading to Twageos Road and Lovers Loan is One Way and Breiwick Road and Lovers Loan round the Old Cemetery is One Way - there is no potential for a large number of houses. A maximum of 50 affordable homes is suggested. Listed Buildings - the AEI could be adapted as a Care Home, others perhaps for light industry. There is also the possibility that the Cemetery could be extended. Full public consultation is obviously required. As long time residents (52 years) we hope these suggestions are helpful. | | | |

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| 14 | <ul style="list-style-type: none"> • The Knab Campus – A Learning & Living Site • This site offers a unique development opportunity and with the right development could deliver significant social and economic benefits to Shetland. • After taking the Development Brief into consideration, HIE Shetland Area office proposes a 'Learning and Living' site at the 'Knab Campus'. This proposal places education at the heart of the campus and would enable a well- designed, integrated and mixed use site to be developed. • We have split our proposal into two key areas: • Learning: A 'New Shetland College' campus that would bring Shetland's tertiary education providers into one locale creating a vibrant, modern student campus with high quality education and student facilities. By bringing a 'New College Shetland' together in one place on this site we can: • Create open, green recreational spaces that will enhance access and the environment of the area for the benefit of both the student population and general public; • Create high quality student facilities in one campus (e.g. student union, refectory, accommodation, childcare facilities) and create an environment in which Shetland's student community can grow. The Janet Courtney Hostel can be refurbished to offer high quality student accommodation; • Re-develop existing premises to provide state-of-the-art education and training facilities. We have identified the Games Hall as a potential state-of-the-art student engineering workshop and the ASN Building space for business "spin out" centres, providing low cost accommodation for student business start-ups; • Locate students close to Lerwick Town centre and all its facilities and services, integrate and encourage the use of public transport and other forms of low carbon transport into the campus; • Living: alongside a 'New Shetland College' campus the site also offers the opportunity for a mixture of housing options to help alleviate Lerwick's housing shortage and HIE recommends: • Converting the Anderson Institute Buildings and Bruce Hostel into luxury flats and/or commercial accommodation; • Converting the science block for social and/or mixed tenure housing. • We propose demolishing all buildings except the Listed Buildings, Games Hall and ASN to ensure the site is developed with an overarching design that respects the character and distinctiveness of the local area. The 'new college' should ideally be the focal point of the site with other developments positioned around its development. | | | |
| 15 | <ul style="list-style-type: none"> • With reference to the consultation for the future use of the Anderson High School buildings after the new school becomes operational, we would like to suggest that the current Additional Support Needs unit is kept open. We currently work in this unit with pupils who have profound learning difficulties and a number of them have an Autistic Spectrum Disorder (ASD). For these pupils, being asked to be in an environment that is unsuitable for their specific needs can cause extreme distress and anxiety; some find it difficult to be amongst other pupils and need a totally separate space with a limited number of support staff with whom they can develop a trusting rapport. The incorrect environment and support and learning environment can very often result in their anxiety being displayed as what is deemed "challenging behaviour". Those who understand the needs of those with ASD realise that this behaviour is a means of communication, that the pupil is unable to cope with the situation or environment in which they have been placed. We are told that that the new school will be an inclusive environment, but inclusion is not necessarily about integrating pupils with ASN into a mainstream environment, it is also about the wider community accepting pupils for who they are and adapting the environment and their learning curriculum to suit their abilities. Staff in the ASN department have already expressed concerns that the new school will not provide the space for some individual with ASN to have the peaceful environment and individual space that they may require in order to reduce their anxieties, which in turn allows them to learn to trust support staff and move forward with their education at the pupils pace. An undemanding, nurturing approach can, and has with previous pupils, help them to become more at ease within the wider community both within mainstream school and within society. The concern is that pushing these pupils into an unsuitable environment will have a detrimental effect on their well-being which will prevent them reaching their own potential and feeling more at ease within society. Therefore having the use of the current ASN building, which has already been adapted to suit these pupils' specific needs, | | | |

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| 16 | <p>• With reference to the consultation for the future use of the Anderson High School buildings after the new school becomes operational, we would like to suggest that the current Additional Support Needs unit is kept open.</p> <p>We currently work in this unit with pupils who have profound learning difficulties and a number of them have an Autistic Spectrum Disorder (ASD). For these pupils, being asked to be in an environment that is unsuitable for their specific needs can cause extreme distress and anxiety; some find it difficult to be amongst other pupils and need a totally separate space with a limited number of support staff with whom they can develop a trusting rapport. The incorrect environment and support and learning environment can very often result in their anxiety being displayed as what is deemed "challenging behaviour". Those who understand the needs of those with ASD realise that this behaviour is a means of communication, that the pupil is unable to cope with the situation or environment in which they have been placed.</p> <p>We are told that that the new school will be an inclusive environment, but inclusion is not necessarily about integrating pupils with ASN into a mainstream environment, it is also about the wider community accepting pupils for who they are and adapting the environment and their learning curriculum to suit their abilities.</p> <p>Staff in the ASN department have already expressed concerns that the new school will not provide the space for some individual with ASN to have the peaceful environment and individual space that they may require in order to reduce their anxieties, which in turn allows them to learn to trust support staff and move forward with their education at the pupils pace. An undemanding, nurturing approach can, and has with previous pupils, help them to become more at ease within the wider community both within mainstream school and within society.</p> <p>The concern is that pushing these pupils into an unsuitable environment will have a detrimental effect on their well-being which will prevent them reaching their own potential and feeling more at ease within society. Therefore having the use of the current ASN building, which has already been adapted to suit these pupils' specific needs, would be of great benefit.</p> | | | |
| 18 | <p>A compelling case can be made for transferring those parts of Shetland College presently housed in its Gremista complex to the "old" Anderson High School Knab premises, and it would be tragic if the SIC were to forego this opportunity to kick-start the transformation of the College into the leading tertiary institution of the North by turning the site over to private developers simply in order to bolster its financial position (as it did in the recent case of the Viking Bus Station).</p> <p>Shetland College can only thrive if it enjoys the same attention lavished by the Council on the "new" AHS, and it is unfortunate there is no explicit mention of the former in the Draft Development Brief, or that no copy of the report of Architecture & Design Scotland on the "Visioning Exercise" was attached to the Brief to indicate whether the College's transfer was even considered. Naturally new residential accommodation is not precluded by the suggestion above.</p> | | | |
| 19 | <p>Further to our review of the draft development plan/brief of the soon to be vacated Anderson High School complex, please see below comments from the Trondra and Burra Community Council:</p> <ul style="list-style-type: none"> - Overall, there is a significant shortage of housing in Shetland. The AHS site could help to reduce the speed of urban sprawl at the Staney Hill and Sound (to a lesser degree). However, just housing would not present a good mixed use of the site. All developments need to offer more than just housing. - We did not see any significant reference/proposal for anything other than housing. Community facilities, such as shops/convenience stores, recreational areas, café/bar, further education facilities, etc., would offer a mixed use and more desirable place to take up residence. However, re-use/re-zoning is not without challenges. - Any housing development would need to include both rental and private developments, in order to manage the growth both types of accessible housing. Quoys is a prime example. - Both the Bruce Hostel and the Anderson Institute could offer outstanding hotel/hostel accommodation, depending on market research with Visit Shetland. Council driven, private development...? - Indoor recreational facilities were discussed, such as ice rink, bowling alley, cafe/bar in the ASN, science block, FE College or the sports centre. There is sufficient sporting facilities/centres throughout Shetland. - Also mentioned was the lack of a caravan/camp site in Lerwick, which was previously located at Clickimin, and was very popular with locals as well as visitors to the isles. | | | |

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| 20 | <ul style="list-style-type: none"> Games Hall building should be preserved to cater for community need for indoor sports facilities. Allowance for extension to Lerwick Cemetery. Janet Courtney Hostel should be demolished (or developer allowed to demolish). Vehicular access should be through Knab Road, not Lovers Loan. | | | |
| 21 | <p>Access to the AHS site would enable us to access additional space and resources, thus allowing us to grow the types of activities currently offered to our young people, such as use of sports halls and outdoor space, as well as utilisation of public performance facilities, thus growing our young people in physical fitness, health, well being and confidence.</p> <p>Longer term, we would love the opportunity to develop an all weather outward bound facility to include but not limited to, climbing wall, abseiling facility, bouldering wall, archery, air rifle shooting, caving / pot holing simulator, aeroball etc. This would be an outstanding facility to be utilised by not only scouting and the youth of Lerwick and Shetland, but also a possible income generation, from tourists, local companies and members of the public all year round.</p> <p>We have identified a project team to facilitate and undertake this opportunity and would be grateful of the opportunity to discuss this further in person.</p> | | | |
| 22 | <p>Part of this site, including the original institute building (and it's setting), should be earmarked for the replacement of the Gremista college building that, despite recent improvements, is not ideal in location or layout for the accommodation or development of our future education service. When the proposal for the college to be shoehorned into existing commercial buildings was first made public, the location and design were questioned, but the reply at the time, was that it was an interim measure and the buildings could be converted back to commercial use once a purpose designed collage had been built.</p> <p>The freeing up of the AHS site provides the opportunity for the original vision of a purpose designed college to be realized and I would urge the Council to seriously consider retaining the heart of the site for educational use, paving the way for a College Building that would be more attractive to staff and students from both Shetland and further afield.</p> <p>In addition, the loss of the AHS from this site will reduce activity and footfall in the Town Centre and change the perception of pupils as to what constitutes the Town Centre. Replacing this activity with students will go part way to replacing the eroding loss of Town Centre vitality.</p> | | | |
| 24 | <ul style="list-style-type: none"> This site could be used for a large primary school that could replace Sound School and Bells Brae. The site could alternatively be used for a new hospital. | | | |

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| 25 | <p>Members expressed firstly and foremost that educational use for the site should be considered in the first instance, including any childcare requirements.</p> <p>Secondly, the site should be preserved for learning, living and recreational use.</p> <p>With regard to the buildings only the listed buildings known as the Anderson Education Institute and the original Bruce Hostel should remain, along with their grounds as identified in your brief. All protection to the facade of Janet Courtney Hostel should be removed to prevent restricting that part of the site.</p> <p>As all bus routes should be flexible and dynamic enough to serve future needs, therefore no restrictions should be encountered in the re-development of the site. An area of the site set aside for the future increase of Lerwick Cemetery was mentioned by members.</p> | | | |
| 26 | <p>Sorry for the e-mail but my Adobe is being temperamental</p> <p>As the council is strapped for cash and I notice a private house site for sale in St Olaf street for sale for £100 000 that would seem a no brainer. Could raise millions.</p> <p>Would there be room somewhere to replace the Clickimin campsite.</p> <p>Old Bruce Hostel could be a Casino!</p> <p>And from a purely selfish point of view it would be nice if the huts in front of 1 and 2 Bellevue Park were removed. We were told 40 years ago they were temporary!</p> | | | |

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| Issue 2 - Suggested design for site | | | | |
| 6 | <ul style="list-style-type: none">I am not a huge fan of the listed buildings but agree that efforts will have to be made to retain them. The removal of the huts from the front of the Old Institute should be a priority as it is long overdue. | Design suggestions to be taken into consideration during the design process of the development. | We acknowledge the suggestions provided for the development of this site; however we are unable to include this information within the Development Brief. The suggestions submitted will feed into the future process of developing the site which will be carried out by the developer/landowner | The Planning Service will pass on these comments to the developer. |
| 17 | <ul style="list-style-type: none">If possible could the final design of the old AHS site include and access path to the rear of the row of terraced houses which border the site along Twageos Road? At present these houses (8-30 Twageos Road) have no access to their rear gardens and would all benefit considerably from having a footpath below the science block, this would allow bicycle access in particular, to the rear gardens making life much better. <p>As mentioned in the brief such a path would be a place :</p> <ul style="list-style-type: none">* That considers the needs of people before motor vehicles* Where paths and routes should be developed within the site which connect those living and working within the area.* That provides spaces that are easy to move around and promote good accessibility | | | |
| 20 | <ul style="list-style-type: none">Development should be limited to max 3 storey | | | |
| 25 | <ul style="list-style-type: none">With regard to the buildings only the listed buildings known as the Anderson Education Institute and the original Bruce Hostel should remain, along with their grounds as identified in your brief. All protection to the facade of Janet Courtney Hostel should be removed to prevent restricting that part of the siteAny new development of housing should be of low density, mixed and with a maximum three storey height. It would be desirable to have accessibility with the use of through paths for cyclists and pedestrians and plenty of open spaces. | | | |
| | | | | |
| Issue 3 - Engagement with Roads | | | | |
| 7 | <p>With reference to Section 4 "Developer Requirements."</p> <p>I think it would be beneficial to recommend "Early engagement with the Shetland Islands Council Roads Service and compliance with their Policy and Guidance on new Development."</p> <p>It would be advisable for developers to take the earliest possible opportunity to discuss how the site is to be accessed and our requirements for parking etc. This can streamline the process and save a great deal of wasted time, effort and expense. Unfortunately, the access and parking requirements are often an afterthought. The Council's new policy to comply with the "National Roads Development Guide" requires early engagement to "achieve a balanced outcome" but it would do no harm to remind developers of this requirement in the development brief.</p> | To include early engagement with the Roads Service regarding access and road design of the development. | Inclusion of early engagement with the Roads Service within the developer requirements will help ensure that road access and design is considered at an early stage in the development. | Add in early engagement with Roads Service to section 4 "developer requirements" of the Development Brief. |
| Issue 4 - Access to Site | | | | |
| 13 | Owing to the restricted access to the Site – Knab Road is the only viable access – South Commercial Street leading to Twageos Road and Lovers Loan is one way and Breiwick Road and Lovers Loan round the Old Cemetery is One Way – there is no potential for a large number of houses. | Road access to the site to be from Knab Road | The draft development brief acknowledges the desire to see a decrease in the level of traffic on Lovers Loan; to enable this, the development brief has identified a possible new access route directing traffic onto Knab Road. | No action required. |
| 19 | Access/egress could be addressed without much difficulty due to the available space throughout the site. Our estimate is that there may be slightly less, of possible a trade off of school and residential traffic. | | | |
| 20 | Vehicular access should be through Knab Road, not Lovers Loan. | | | |
| 25 | The main vehicular access should still be through Knab Road. | | | |

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| Issue 5 - Town Centre - Footfall | | | | |
| 19 22 | Housing in this location, may add to the much needed footfall and increased use of the shops on Commercial Street. In addition, the loss of the AHS from this site will reduce activity and footfall in the Town Centre and change the perception of pupils as to what constitutes the Town Centre. Replacing this activity with students will go part way to replacing the eroding loss of Town Centre vitality. | No modification sought. | We acknowledge the suggestions provided for the development of this site; however we are unable to include this information within the Development Brief. The suggestions submitted will feed into the future process of developing the site which will be carried out by the developer/landowner. Local Development Plan policy ED3 – Lerwick Town Centre and Scottish Planning Policy both encourage development within the Town Centre to ensure health and vitality. Any proposed use of the site that is developed will be in accordance to planning policy | Pass on comments to developer/landowner to consider during process of developing the site. |
| Issue 6 - Archaeology | | | | |
| 5 | Thank you for consulting us on the Draft Development Brief for the Anderson High School Campus. We appreciate the references to the archaeological potential and early engagement with us and are content with the document as it stands | No modification sought. | The Planning Service acknowledges the comments made. | No action required. |
| Issue 7 - Historic Environment Scotland | | | | |
| 10 | Thank you for your consultation letter of 14 July seeking our views on the above. We note that all our comments in relation to the historic environment, as expressed during previous consultations and a site visit, have been incorporated into the Development Brief (DB). We have no additional comments to make on the DB. | No modification sought. | The Planning Service acknowledges the comments made. | No action required. |
| Issue 8 - Provision of Sports Facilities | | | | |
| 23 | Thank you for the opportunity to comment on this draft development brief. There are no uses on the site in respect of which sportscotland is a statutory consultee. As such our comments are advisory, and we would not need to be consulted as part of a subsequent planning application. We note that there is a sports hall on the site, which is used by the school and I understand a range of sports clubs. We assume the council as landowner has engaged with the sports groups who use this hall to confirm that provision can be made for them elsewhere in Lerwick. It is important that the loss of the hall does not have a negative impact on sports participation in Lerwick. | Provision for existing users of the current sports hall to be met elsewhere within Lerwick. | | Pass on the comments to the landowner/developer to take into consideration during the process of developing the site. |

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| Issue 9 - Flood Risk | | | | |
| 11 | <p>Flood risk</p> <p>The Constraints and limitation section should highlight that small areas of the site have been identified as being at medium to high risk of surface water flooding. Additionally, we hold records of flooding on Twageos Road adjacent to the site.</p> <p>With regards to potential surface water risk, Scottish Planning Policy (SPP) states that "Infrastructure and buildings should generally be designed to be free from surface water flooding in rainfall events where the annual probability of occurrence is greater than 0.5% (1:200 years)". It also states that "surface water drainage measures should have a neutral or better effect on the risk of flooding both on and off the site, taking account of rain falling on the site and run off from adjacent areas". Therefore, we would highlight that surface water flooding should not be increased elsewhere as a result of future development at the site and it would be helpful if the Brief made this clear. This is particularly important considering the existing flooding issues on Twageos Road. We would recommend that a drainage impact assessment is carried out in support of any future planning application but highlight that in line with SEPA's Interim Position Statement on Planning and Flooding we consider the water quantity aspects of surface water drainage to largely be the remit of local authorities to consider in conjunction with Scottish Water. We recommend that as Flood Prevention Authority, Shetlands Islands Council are consulted and may be able to provide more detailed advice on this matter.</p> | <p>Additional information to be added to the development brief regarding surface water flooding and recommendation that a drainage impact assessment is carried out to support future planning applications.</p> <p>Highlighting that in line with SEPA's Interim Position Statement on Planning and Flooding considering the water quantity aspects of surface water drainage to largely be the remit of local authorities to consider in conjunction with</p> | <p>Inclusion of additional comments and developer requirement will ensure that development complies with SEPA's guidance.</p> | <p>Add in the requirement of a drainage impact assessment to Section 4 "Developers Requirements" of the Development Brief. The assessment is to be carried out in conjunction with SEPA's interim position statement on planning and flooding with consultation with the Council and Scottish Water to be carried out.</p> |
| Issue 10 - Surface Water Drainage | | | | |
| 11 | <p>Surface water drainage</p> <p>We support the point made in in the site analysis section of the brief that surface water drainage at this site will require a SUDS scheme.</p> <p>Please note that surface water drainage scheme for this site should be in accordance with the principles in the CIRIA C753 (The SuDS Manual) and it would be helpful if the Brief made this point clear.</p> | <p>Add in detail stating that SuDS should be in compliance with principles in the CIRIA C753 to the developers requirements.</p> | <p>Additional information to be added to the brief to ensure that development of SuDS is in compliance with the relevant requirements.</p> | <p>Add in additional information regarding the principles within CIRIA C753 (The SuDS Manual).</p> |
| Issue 11 - Distric Heating | | | | |
| 11 | <p>District heating</p> <p>In the site analysis section in the Brief, capacity for heat and energy can only be formally addressed once detailed scheme proposals are developed. The brief further states that the 'System is close to capacity at present though and there may be insufficient pressure available to reach all parts of the site.' We assume this means that some aspects of the proposed development can be served by the existing network (Shetland Heat Energy and Power Limited). As Scottish Planning Policy (SPP) paragraphs 158 to 160 has a strong policy which requires developments to connect to an existing network and develop district heating networks, it will be useful at the next stage to identify how the heat demand for the remainder of the proposed development which could not be served by the existing network will be met.</p> | <p>Information to be provided at the next stage of the process identifying how the heat demand will be met for the remainder of the proposed development that cannot be served by the existing network.</p> | <p>Additional information to be provided to ensure that the development progresses in compliance with SPP.</p> | <p>Add in an addition requirement for developers to identify how heat demand will be met in the next stages of the development process.</p> |
| Issue 12 - Public Transport | | | | |
| 6 | <ul style="list-style-type: none">• I note that no changes to public bus routes are envisaged. I'd suggest that should be looked at again, and a loop added to the town service to discourage excessive car use. This is because the area is quite exposed and uphill from the town centre, so walking may not be comfortable for the less able.• We did discuss public transport, but realistically, how much/often is the existing town/public transport used? A review of the existing town service bus route may be necessary, depending on the nature of the use of the site.• As all bus routes should be flexible and dynamic enough to serve future needs, therefore no restrictions should be encountered in the re-development of the site | <p>The provision of public transport to the Knab Site to be re-assessed within the development brief.</p> | <p>Currently there are no plans to make changes to the public transport route within Lerwick. The requirement for public transport will be re-considered during the Masterplan.</p> | <p>These comments will be passed on to the developer and taken into consideration during the Masterplan stage of the site development.</p> |
| 19 | | <p>A review of public transport, if necessary depending on the development on site</p> | | |
| 25 | | | | |
| Issue 13 - Future Consultation | | | | |
| 9 | <p>The main existing buildings are listed and are, therefore, subject to special consideration. I feel the widest possible canvass of public opinion be sought to determine whether some future community statutory or voluntary sector purpose for these buildings might be realised for the common weal.</p> <p>Full public consultation is obviously required.</p> | <p>Further consultation throughout the progression of the development.</p> | <p>The next stage of the process is a Masterplan. Further public engagement and consultation will be carried out during the Masterplan.</p> | <p>No action required.</p> |
| 13 | | | | |



Environment and Transport Committee
Development Committee
Policy and Resources Committee

3 October 2016
4 October 2016
24 October 2016

| | |
|---|-------------------------|
| Fuel Affordability Survey – Survey Results and Analysis | |
| EO-05-16-F | |
| Director of Infrastructure Services | Infrastructure Services |

1.0 Summary

- 1.1 The purpose of this report is to inform the Committee of the findings of the Fuel Affordability Survey undertaken by the Council in December 2015 and seek approval of the action plan which identifies activity for the Council and its partners to tackle Fuel Poverty in Shetland.

2.0 Decision Required

- 2.1 That the Environment and Transport Committee and the Development Committee NOTE the Affordability Survey results and RECOMMEND that the Policy and Resources Committee APPROVES the implementation of the Fuel Poverty Action Plan.

3.0 Detail

- 3.1 **Fuel Poverty** - A household is said to be in fuel poverty if in order to heat their home to an adequate level they have to spend more than 10% of their income on their energy/fuel costs. If the household spends over 20% of their income on this they are defined as being in “extreme fuel poverty”.
- 3.2 In November 2015 a Fuel Affordability Survey of all Shetland households was carried out to ascertain the current level of fuel poverty in Shetland. It was designed to better understand the causes of fuel poverty in Shetland by creating an evidence base to direct the activity of the Council and its partners in tackling Fuel Poverty. The survey was based on similar surveys in the Western Isles and Orkney which enables comparisons across the three island authorities who have the highest level of fuel poverty in Scotland.

- 3.3 10,800 household surveys were sent, 2,425 were returned with a response rate of 22%.
- 3.4 As shown in the attached Report (Appendix 1) the survey confirmed 53% of Shetland households experience fuel poverty – with the highest rates being in the North Isles which had a 64% level of fuel poverty.
- 3.5 In response to the issues identified by the Survey analysis an action plan has been developed, the actions will be delivered and monitored by the Fuel Poverty Action Group and will be taken forward in the development of the new Housing Strategy. The Fuel Poverty Action Group is made up of SIC Housing, Carbon Management, Community Planning and Development services, CAB, Hjaltland Housing Association, Home Energy Scotland, and NHS Shetland.

4.0 Implications

Strategic

- 4.1 Delivery On Corporate Priorities – Tackling fuel poverty is a key priority in the Council's Housing Strategy.

Addressing Fuel Poverty improves the educational and health outcomes for children and young people. Cold, poorly heated homes affect babies' weight gain and increase the frequency and severity of asthmatic symptoms in children. Teenagers who live in cold houses are five times more likely to risk developing multiple mental health problems than adolescents who have always lived in warm homes. Growing up in a cold home is likely to have a negative effect on children's educational achievement, emotional well-being and resilience. Over time this can put them at a disadvantage, worsening their life chances and increasing health inequalities.

Warm homes assist older people to live healthier and active lives by reducing the risk of heart and lung disease. Fuel poverty is also known to worsen conditions like arthritis and rheumatism.

Delivering savings on fuel bills has a beneficial impact on the local economy because people have more disposable income if their properties are more efficient.

It can clearly be demonstrated that tackling Fuel Poverty is a significant activity in delivering the priority outcomes in the Council's Corporate Plan – Our Plan 2011/6 to 2020.

Shetland's Commission on Tackling Inequalities set out recommendations on how to address fuel poverty in Shetland. These recommendations have been used to develop the Action Plan set out in Appendix 2.

The Council's Carbon Management Plan seeks to reduce carbon emissions (by reducing energy use) through appropriately insulating and heating the domestic housing sector – tackling fuel poverty targets resources at those most in need of assistance.

- 4.2 Community /Stakeholder Issues – Living in fuel poverty is detrimental to health and wellbeing and effects the life chances and opportunities of individuals, householders and communities.
- 4.3 Policy And/Or Delegated Authority – In accordance with Section 2.3.1 of the Council's Scheme of Delegation, the Environment and Transport Committee has functional responsibility for environmental services, and in particular carbon and energy management. The Development Committee has functional responsibility for housing and poverty. However, as the Action Plan involves multiple Council services and community planning partners, a decision to approve the Action Plan is a matter for the Policy and Resources Committee [Scheme of Delegation – 2.1.4(4)]
- 4.4 Risk Management – Given the significant impact that fuel poverty has on health and wellbeing outcomes and the life chances of individuals failing to address fuel poverty creates significant additional expense within social care and losses to the economy and community if Shetland's young people are not realising their full potential.
- 4.5 Equalities, Health And Human Rights – It is a basic human right to be able to live in a warm, healthy home. Living in fuel poverty negatively impacts on the health and wealth of individuals and is a key cause of inequality of outcomes for individuals, households and communities.
- 4.6 Environmental – The Climate Change (Scotland) Act 2009 requires local authorities to reduce carbon emissions. Tackling fuel poverty through supporting energy efficiency retrofit works reduces carbon emissions.

Resources

- 4.7 Financial – The survey costs were paid for through external funding from Scottish Government under the enabling fund received from Government as part of the Home Energy Efficiency Programme Area Based Scheme. This fund also supports grant funding of energy efficiency retrofit work on homes to support households.

The costs of delivering the Fuel Poverty Action Plan are multi organisational in that they require input from SIC Housing, Carbon Management, Community Planning and Development services, CAB, Hjaltsland Housing Association, Home Energy Scotland, and NHS Shetland. The actions will be managed within existing resources however all efforts will be made to continue to draw in financial support to Shetland from Scottish Government and UK Government fuel poverty and energy schemes.

- 4.8 Legal – The Climate Change (Scotland) Act 2009 places a duty on the Council to reduce carbon emissions and support sustainable development.
- 4.9 Human Resources – The Carbon Management Team is part funded through this external enabling funding to tackle fuel poverty. This funding is applied for to the Scottish Government annually.

- 4.10 Assets And Property – Through the operation of the EESH programme by Housing Services, as part of the response to fuel poverty data and housing quality standards, the Council is improving its Council housing stock. These actions contribute to the reduction in fuel poverty levels of Council tenants.

5.0 Conclusions

- 5.1 The analysis of the Fuel Affordability Report demonstrates an increase in fuel poverty levels in Shetland since 2010. More than half of all Shetland homes are now in fuel poverty and at risk of experiencing the negative outcomes associated with fuel poverty. The study of the survey results has enabled the development of a Fuel Poverty Action Plan to enable the monitoring of actions being taken by local and national bodies to reduce fuel poverty and promote affordable warmth for all households.

For further information please contact:

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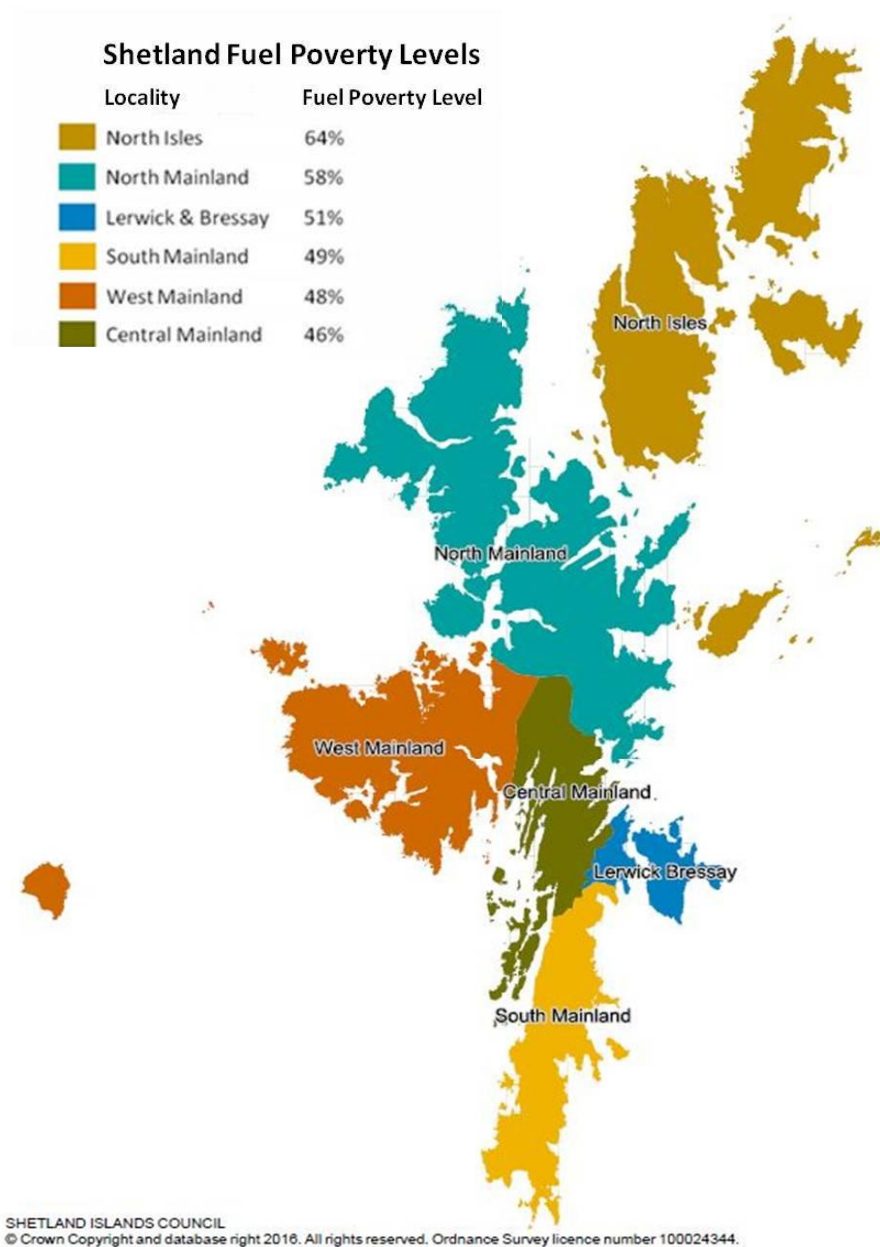
26 September 2016

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| Appendix 2 | Fuel Poverty Working Group Action Plan |

Fuel Affordability Report

2015/16



Survey Results and Analysis

Executive Summary

In November 2015 a Domestic Fuel Affordability Survey was sent out to all Shetland homes, 10,800 in total. 2425 were returned for processing, a 22% return.

The results confirm that the fuel poverty level in Shetland in 2015/16 is 53%, with the North Isles having the highest level of poverty with a rate of 64%. This was an increase of 10% since 2010 and demonstrates that more than half of all Shetland homes are now living in fuel poverty.

The detailed analysis breakdown of data has been undertaken to try and understand the factors contributing to Fuel Poverty in Shetland and develop a more proactive action plan to address it.

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1 Background

- 1.1 In November 2015 a Fuel Affordability Survey was carried out in Shetland to ascertain the current level of fuel poverty. This was the first locally carried out survey since 2010.
- 1.2 Both Western Isles and Orkney Islands Council were carrying out similar surveys. The intention was to use these results to jointly lobby Government through the “Our Islands: Our Future” process on the high levels of fuel poverty in the islands groups. The benefits of carrying out similar surveys is that there is now a common baseline over the 3 authorities.
- 1.3 All three island groups believed that current Government figures understated levels of fuel poverty. In Shetland’s case Government figures stated a fuel poverty level of 43%. Those working with fuel poverty in Shetland believed this to be an underestimate.
- 1.4 A householder is defined as being in fuel poverty, if in order to maintain a satisfactory heating level, they would need to spend 10% or more of their household income (including Housing Benefit and/or Income Support) on all household fuel use. Should the householder spend over 20% of their household income on domestic fuel they are defined as being in Extreme Fuel Poverty.
- 1.5 It was agreed that the survey format developed by Western Isles Council would be adopted as the standard format for the other two island groups. The results from the Western Isles had demonstrated a considerably higher level of fuel poverty to exist than that stated in Government data.
- 1.6 The proposed Shetland questionnaire was approved with minor amendments by the Shetland Fuel Poverty Working Group. This Group involves a multi-disciplinary group of organizations including the Shetland Islands Council, Community Planning, CAB, Home Energy Scotland, NHS Shetland and Hjaltland Housing Association. It was agreed that the questionnaire would be sent to every home in Shetland (10,800 houses) and that its postage would be externally funded using Government enabling monies for the Home Energy Efficiency Programme: Area Based Scheme in Shetland.
- 1.7 Of the 10,800 surveys sent, 2425 were returned to the Council for processing, a response rate of 22%.
- 1.8 The data was recorded and analysed and this information is provided in the remainder of this report.

2 Results and Analysis – Overall Fuel Poverty levels

2.1 The results showed the overall level of fuel poverty in Shetland in 2015 as 53%.

This is based on the 1275 respondents who answered yes to the question ‘Do you estimate you spend more than 10% of your household income on heating and electricity costs?’

2.2 The Scottish House Condition Survey (SHCS) 2014 figures were released in January 2016 and show the same level of fuel poverty for Shetland. Figure 2.2.1 represents this, as well as showing the Scottish national average.

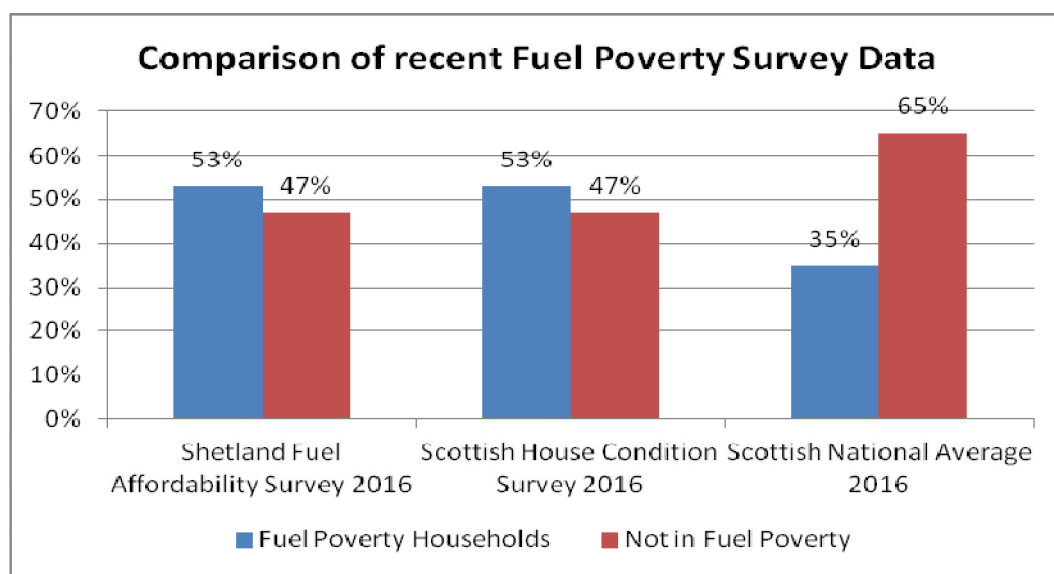


Fig. 2.2.1 Comparison of recent Fuel Poverty Survey Data

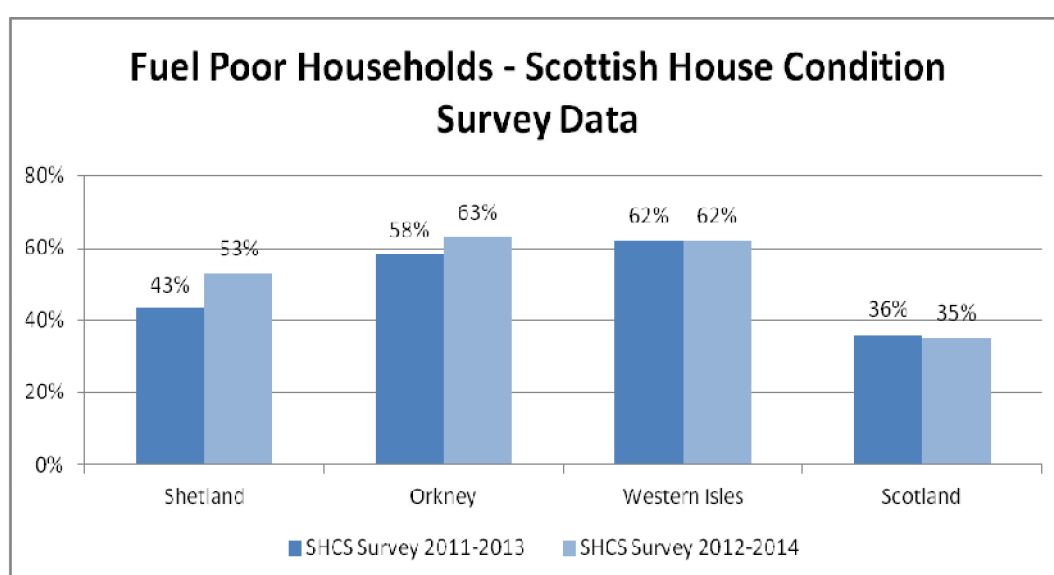


Fig. 2.2.2 Comparison of Recent Scottish House Condition Survey Data

2.3 The level of households in Extreme Fuel Poverty is measured through the Scottish House Condition Survey also. The definition of extreme fuel poverty is when a household has to spend 20% or more of their income on heating their home to an adequate level. The latest figures show an increase to 19% for Shetland.

| | % of Extreme Fuel Poor Households – Scottish House Condition Survey Data | | | |
|----------------|--|--------|---------------|----------|
| | Shetland | Orkney | Western Isles | Scotland |
| SHCS 2011-2013 | 13% | 28% | 24% | 10% |
| SHCS 2012-2014 | 19% | 30% | 26% | 10% |

Fig. 2.3.1 Extreme Fuel Poverty Level Compared to SHCS Data

2.4 As well as asking respondents about their income, households were asked the question ‘Do you feel your home is adequately heated?’ A total of 719 respondents (30%) said no.

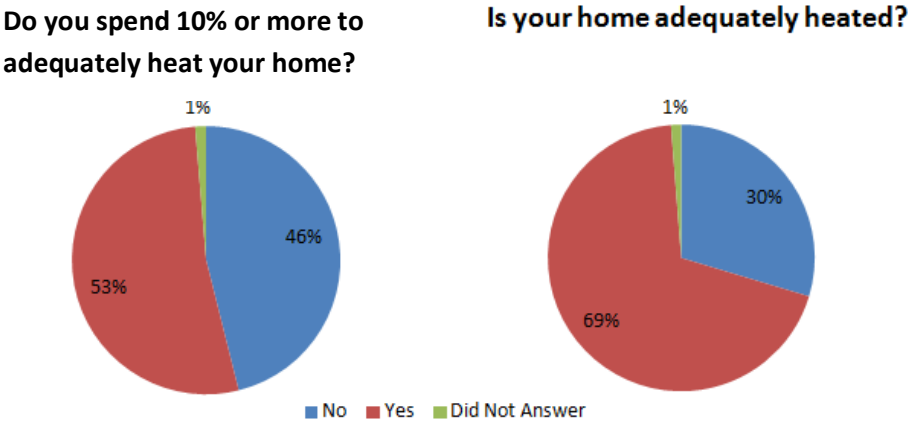


Fig. 2.4.1 Households in Fuel Poverty and Households Adequately Heated

2.5 By locality, the order of areas of Shetland in highest fuel poverty are as follows:-

- * North Isles (64%), North Mainland (58%)
- * Lerwick & Bressay (51%)
- * South Mainland (49%)
- * West Mainland (48%)
- * Central Mainland (46%).

Fig 2.5.1 provides the further detail, including response rates.

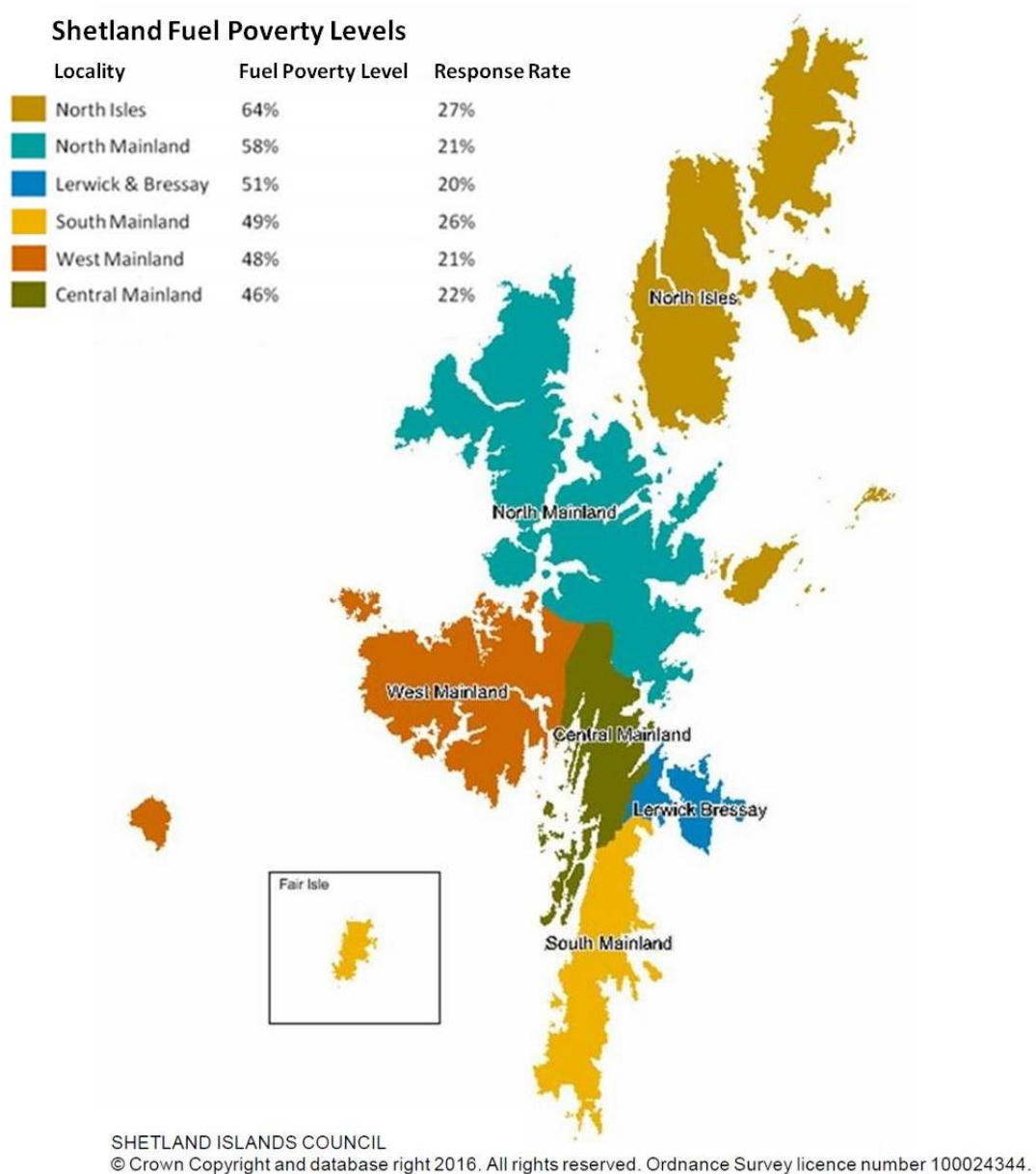


Fig. 2.5.1 Fuel Poverty in Shetland and Survey Response Rates

3 Fuel Poverty by property type

- 3.1 The highest number of surveys received from respondents considering themselves to be in fuel poverty were from those living in detached properties (704).
- 3.2 High levels of fuel poverty were found in semi detached properties (66%) and end terrace properties (63%). However there was a much lower response rate from these house types. With the detached responses, 46% were in fuel poverty.

3.3 The data shows that fewer people living in flats and mid terrace properties are in fuel poverty.

For context, according to Census 2011, the accommodation types in Shetland are: Detached – 56%, Semi-Detached – 24%, Terraced – 8%, Flat – 9%, Caravan – 0.4%.

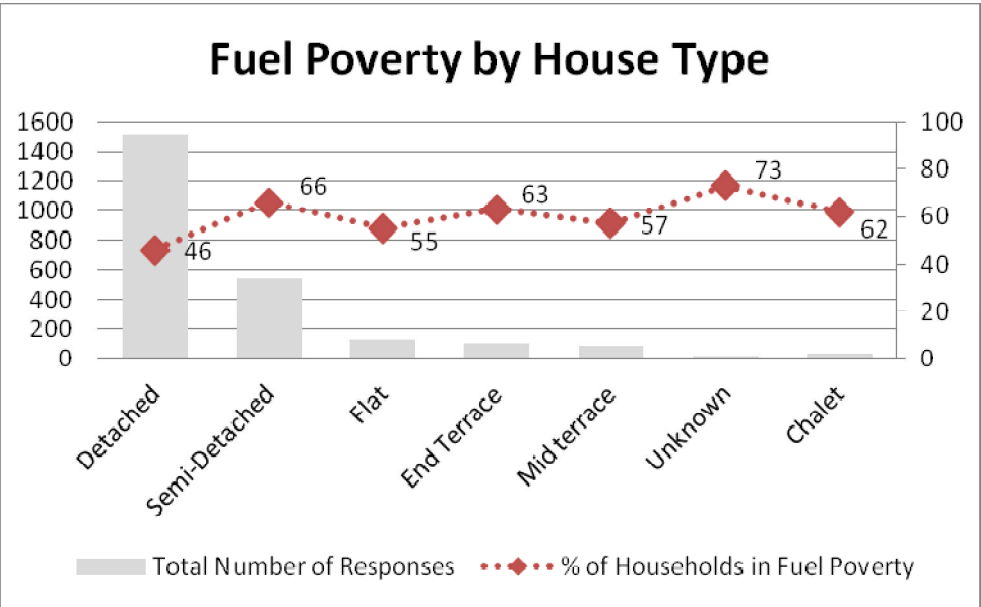


Fig. 3.3.1 Fuel Poverty Levels by Property Type

4 Tenure and Fuel Poverty

4.1 The highest number of respondents in fuel poverty by tenure were owner occupiers (837). Considering all owner occupiers who responded, 46% were in fuel poverty.

Considering all social tenants who responded, 78% of Shetland Islands Council tenants and 73% of Hjaltland Housing Association tenants were in fuel poverty. Combined, this is a total of 336 tenants.

For context, the Census 2011 data shows that 65% of domestic properties in Shetland were owner occupied, 19% Council tenants, 5% Other Social Rented (Hjaltland), 9% Private Rented and 2% Living Rent.

4.2 Household income is a key factor in determining whether a household is in fuel poverty. Therefore this correlation between social housing, where income tends to be lower, and high fuel poverty levels would be expected.

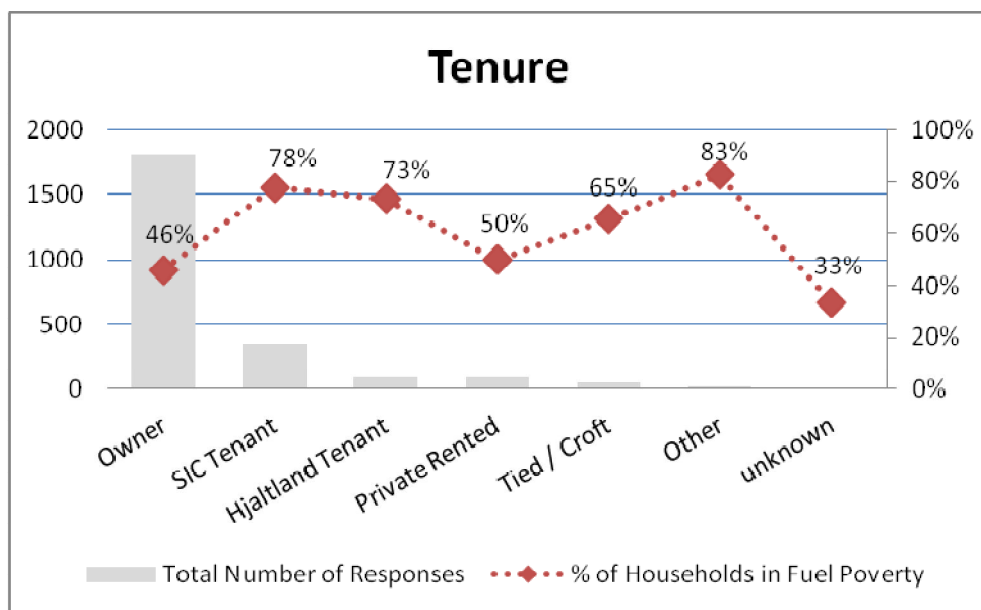


Fig. 4.2.1 Fuel Poverty Levels by Property Tenure

- 4.3 65% of crofting tenants who took part in the survey were in fuel poverty. This may reflect lower incomes in rural areas, but may also reflect older and poorer building standards. 72% of households with tied/crofting tenures who are in fuel poverty are in the North Isles and North Mainland.

5 Property Specifications and Fuel Poverty

- 5.1 The highest number of respondents in fuel poverty heated their water by electricity (755).
- 5.2 The highest rate of fuel poverty was found in homes where the water was heated either by solid fuel (59%) or by electricity (58%) Those heated by oil recorded a 50% fuel poverty level whilst those on district heating recorded a 43% level.

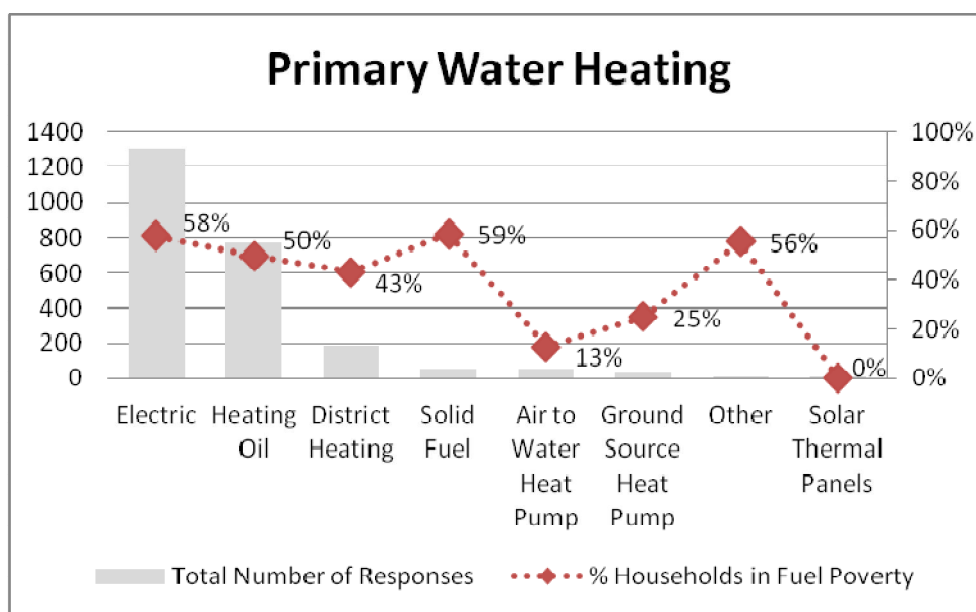


Fig. 5.2.1 Fuel Poverty Levels by Primary Water Heating

- 5.3 The highest number and percentage of households in fuel poverty by build type was reported by those living in solid wall construction (336) or cavity wall construction (332) homes.

A lower number of households were in fuel poverty who lived in timber framed properties (34%).

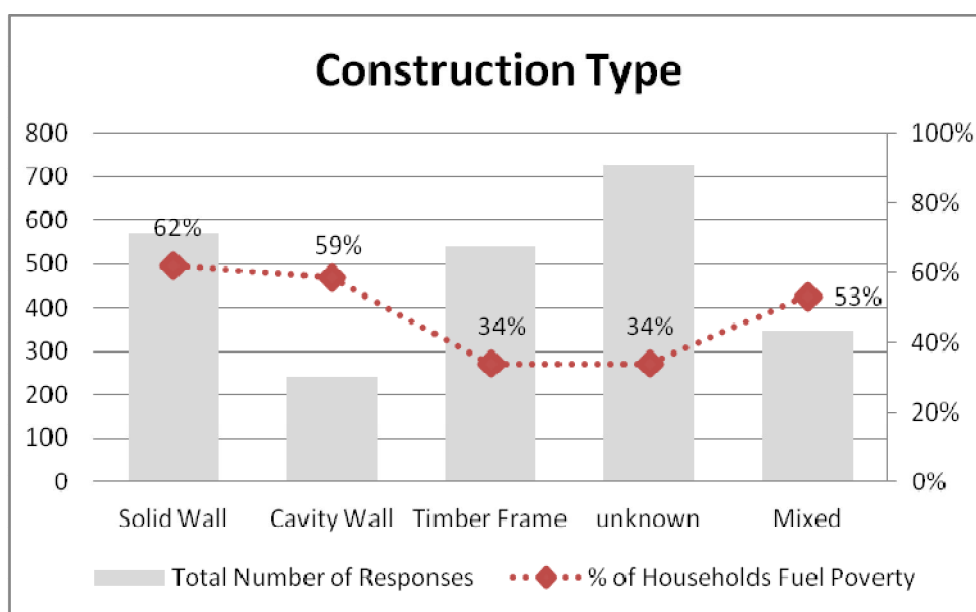


Fig. 5.3.1 Fuel Poverty Levels by Property Construction

- 5.4 The highest number of households in fuel poverty by age of property was reported by those living in properties built between 1965 – 1983 (447).

Evidence shows that fuel poverty is higher in older properties. A lower level of fuel poverty is found in newer properties, particularly those built after 1984. This is likely to be due to higher building standard regulations from 1984.

46% of respondents living in homes built pre 1983 who have indicated that they are spending more than 10% of their income on fuel (ie are in fuel poverty) have also said that they do not adequately heat their home.

Homes built post 2012 have the lowest rates of fuel poverty (31%) with only 19% stating they were spending more than 10% of their Household income on adequately heating their home.

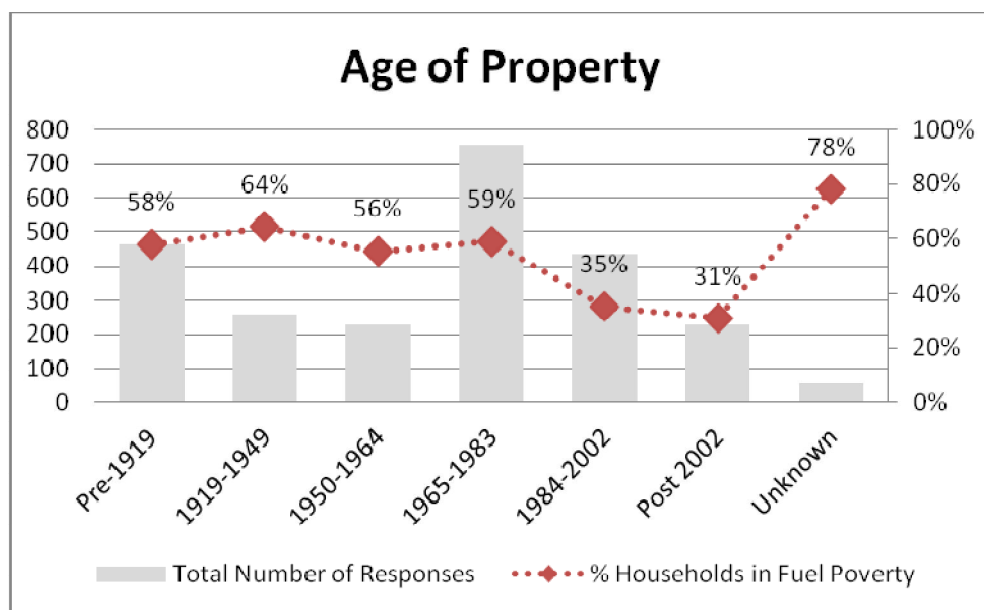


Fig. 5.4.1 Fuel Poverty Levels by Property Age

- 5.5 The highest number of respondents in fuel poverty by the type of room heating was those heating their homes by electric storage heaters (669).

Of the respondents, 58% whose primary room heating was electric boiler/ panel heaters or electric storage heaters were in fuel poverty. This was closely followed by solid fuel heating.

Households using heat pumps were least likely to be in fuel poverty, with fuel poverty at 14% for air to water heat pump homes and 30% in homes using ground sourced heat pumps.

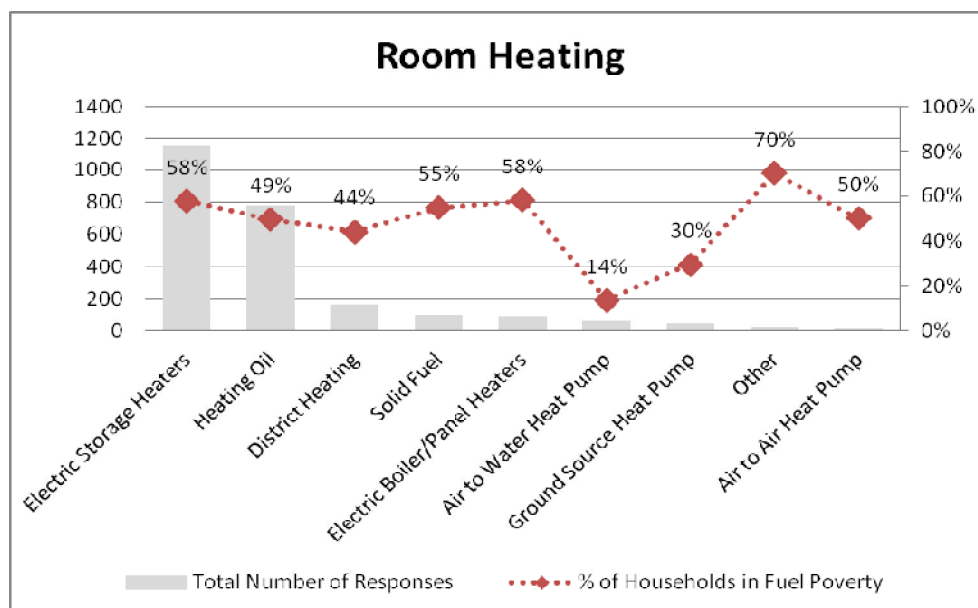


Fig. 5.5.1 Fuel Poverty Levels by Primary Room Heating

- 5.6 59% of homes with unfilled cavity walls were in fuel poverty. 62% of homes with less than 100 mm of loft insulation were in fuel poverty.

However in houses, where the loft had been topped up to more than 100 mm, the fuel poverty level was 49%.

- 5.7 8% of all respondents stated that their properties were not fully double glazed. However, 21% of respondents who were in fuel poverty had single glazing.

6 Size of Property Occupied and Household Size / Under-occupation

- 6.1 Of the 927 single households who responded, 783 (83%) have 2 bedrooms or more, 505 (53%) have 3 bedrooms or more, 113 (12%) have 4 bedrooms or more and 15 (2%) have 5 bedrooms or more.
- 6.2 Of the 837 households with only two adults in residence, 638 (76%) have 3 bedrooms or more, 25% have 4 bedrooms or more, 4% have 5 bedrooms or more.
- 6.3 Of all respondents, the household type who are most fuel poor are households with fewer occupants. 66% of single person households were fuel poor, 65% of households with 1 adult with children were fuel poor.
- 6.4 Of the 614 single households in fuel poverty, 62% lived in their own homes. The next highest percentage was SIC tenants at 26%.
- 6.5 Of the 614 single households in fuel poverty, 61% included at least one member of the household aged of 65 or more.

- 6.6 Not all respondents included their Council Tax Band. However, of the 62% who did, 65% of households living in a Council Tax band A property considered themselves to be in fuel poverty. Of these properties, the highest percentage by locality was within the North Isles at 75%. This locality is where the highest proportion of Council Tax Band A properties are.

7 Energy Supplier and Payment Type

- 7.1 The results show a marked difference between levels of fuel poverty and who supplied the energy. For example, 56% of all respondents whose accounts were with Scottish Power or Scottish Hydro were in fuel poverty, whilst only 34% of those whose accounts were with EON were in fuel poverty.

| Electricity Provider | Total | % of Responses | Fuel Poor | % Fuel Poor |
|----------------------|-------------|----------------|-------------|-------------|
| Scottish Hydro (SSE) | 2245 | 93% | 1200 | 53% |
| Scottish Power | 34 | 1% | 19 | 56% |
| EDF | 18 | 1% | 10 | 56% |
| N Power | 17 | 1% | 7 | 41% |
| Other | 58 | 2% | 21 | 36% |
| E-On | 53 | 2% | 18 | 34% |
| Grand Total | 2425 | 100% | 1275 | |

Fig. 7.1.1 Fuel Poverty Levels by Electricity Supplier

- 7.2 The results also show a marked difference in fuel poverty levels for those paying their electricity by different means. 91% of those paying weekly were in fuel poverty whilst only 46% of those paying monthly were. 75% of those with a pre pay card were in fuel poverty whilst only 46% of those paying by Direct Debit were.

| Main Fuel Payment Method | Total | % of responses | Fuel Poverty | % in Fuel Poverty |
|--------------------------|-------------|----------------|--------------|-------------------|
| Weekly | 79 | 3% | 72 | 91% |
| Prepay Card | 118 | 5% | 88 | 75% |
| Cash | 161 | 7% | 93 | 58% |
| Quarterly | 354 | 15% | 197 | 56% |
| Account | 188 | 8% | 100 | 53% |
| Direct Debit | 617 | 25% | 282 | 46% |
| Monthly | 797 | 33% | 364 | 46% |
| Unknown | 111 | 5% | 79 | 71% |
| Grand Total | 2425 | 95% | 1196 | |

Fig. 7.2.1 Fuel Poverty Levels by Electricity Payment Type

- 7.3 89% of those paying more than £3500 annually for their energy were in fuel poverty. 54% of these also stated that their homes were not being heated adequately and that they were spending more than 10% of their Household income to heat their home.

Of those households paying £2500 to £3000 and £3001 – £3500, 60% and 65% respectively were in fuel poverty.

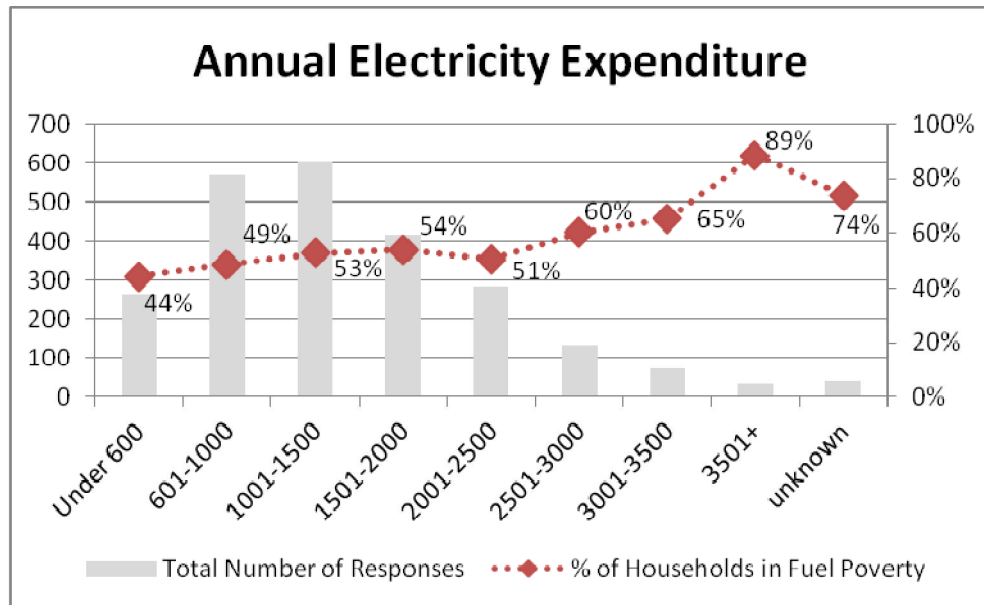


Fig. 7.3.1 Fuel Poverty Levels by Annual Electricity Expenditure

- 7.4 Of respondents, 92% of households who were in fuel poverty stated that their total annual income was under £7500.

44% of these who were spending more than 10% of their Household income on energy also stated that their homes were not being heated adequately. Of these 162 households 77% were single person, 12% were 2 adults only with the remaining 11% of households including children. 52% of these households include people over 65+, with the majority of them living in Lerwick & Bressay.

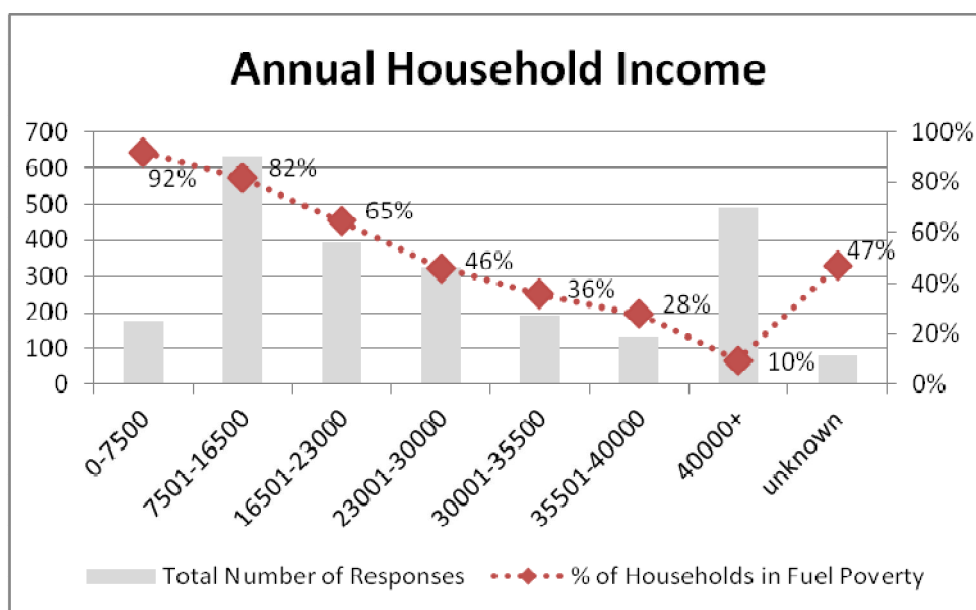


Fig. 7.4.1 Fuel Poverty Levels by Annual Household Income

- 7.5 The survey results demonstrated that households on lower incomes were more likely to be in fuel poverty than households with higher incomes.

82% of all households where the overall income is between £7500 and £16500 were in fuel poverty. These figures compare with a fuel poverty level of 32% in households where the household income is between £30000 and £40000.

8 Age Profile of Family and Benefit Level

- 8.1 Of the households responding with residents over 65, 62% were in fuel poverty. Comparatively, 43% of households with children under 10 were in fuel poverty.

81% of those claiming benefits were in fuel poverty, regardless of age.

| | Total Response | % in Fuel Poverty |
|-------------------------------|----------------|-------------------|
| Household with Child under 10 | 293 | 43% |
| Household with Over 65 | 1015 | 62% |
| Claiming Benefits | 351 | 81% |

Fig. 8.1.1 Fuel Poverty Levels for Households with Children under 10/ Adults over 65 or Claiming Benefits

9 Households not heating their home adequately

- 9.1 As well as the respondents who claimed to be in fuel poverty, there were 719 respondent households who said that they did not heat their home adequately. This equated to 30% of the total responses to the survey.

The localities they live in are as follows:

| Locality | Total | % by Locality |
|---------------------|------------|---------------|
| Lerwick And Bressay | 221 | 31% |
| North Isles | 121 | 17% |
| Central Mainland | 116 | 16% |
| North Mainland | 112 | 16% |
| South Mainland | 109 | 15% |
| West Mainland | 40 | 6% |
| | 719 | 100% |

- 9.2 Of the 719, 41% are households who include someone who is over 65. 12% of households with at least one child under the age of 10 stated that their homes were not adequately heated.

- 9.3 The tenure of homes not adequately heated is as follows:-

| | Do not adequately heat their home |
|-----|-----------------------------------|
| 64% | Owner Occupiers |
| 23% | SIC Tenants |
| 6% | Private Rented |
| 3% | Tied / Croft |
| 3% | HHA |
| 2% | Other |

- 9.4 The house size of homes not being adequately heated is as follows:-

| | Do not adequately heat their home |
|-----|-----------------------------------|
| 48% | 3-bed |
| 27% | 2-bed |
| 13% | 4-bed |
| 8% | 1-bed |
| 3% | 5-bed |

- 9.5 Of respondents who stated that they did not heat their home adequately 45% of those were single occupants and a further 16% were households including children.

- 9.6 In households stating that they were not adequately heating their home the type of primary room heating is as follows.

| Is Your Home Adequately Heated? | | |
|---------------------------------|------------|-------------------|
| Room Heating | Total | % in Fuel Poverty |
| Electric Storage Heaters | 429 | 60% |
| Heating Oil | 161 | 22% |
| Solid Fuel | 44 | 6% |
| Electric Boiler/Panel Heaters | 38 | 5% |
| District Htg | 37 | 5% |
| Other | 4 | 1% |
| Air to Air Heat Pump | 3 | 0% |
| Ground Source Heat Pump | 2 | 0% |
| Air to Water Heat Pump | 1 | 0% |
| Grand Total | 719 | |

10 National Context

- 10.1 The Scottish Rural Fuel Poverty Task Force has identified distinctive dimensions contributing to fuel poverty in remote and rural areas. These are detailed as follows:-

Income Poverty

The MIS Rural Remote Scotland report 2012 demonstrates that households require 10% to 40% higher household income to achieve the same UK average Minimum Income Standard. Our figures included at 7.4 demonstrate this issue within Shetland as affecting our fuel poverty levels.

Climatic Conditions

These affect house fabric and require more heating to be used in properties in certain areas, particularly exposed, rural conditions. Increased storm conditions over the past few years have paralleled an increase in fuel poverty due to an increased need for heating.

It also suggests that weather patterns are affecting fuel poverty levels as the recent long wet and windy periods and poor summers have left householders requiring to heat their homes all year round. This changed weather pattern creates increased energy demand and has almost certainly pushed some families into fuel poverty.

Figure 10.1.1 Heating Degree Day Comparison, shows that years 2014 and 2015 had 199 and 441 more degree days than 2011. This means that people needed to heat their homes more frequently and for longer periods in the most recent years.

This weather pattern change has affected levels of fuel poverty in remote, northern, rural areas such as Shetland.

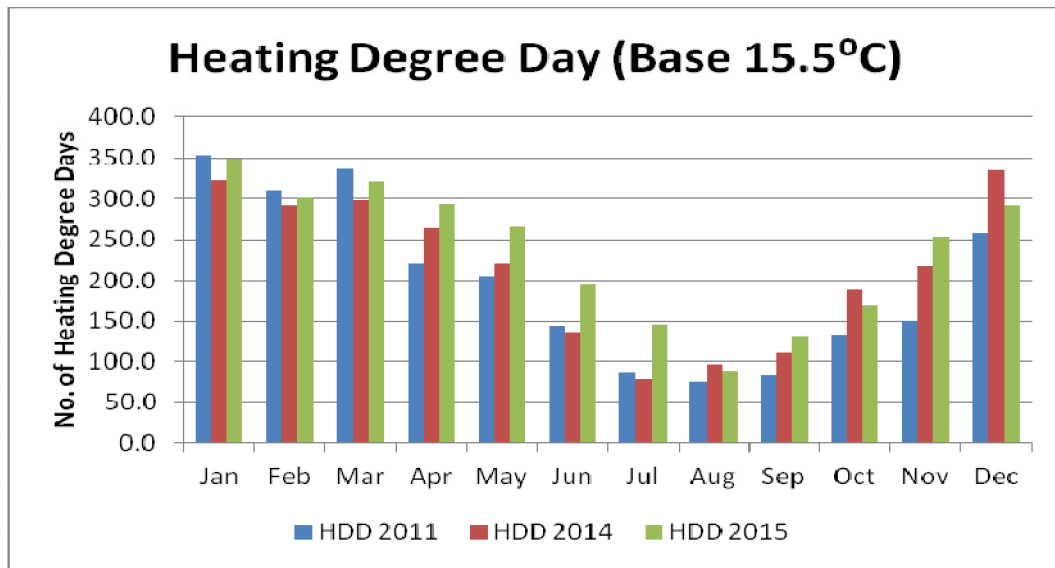


Fig. 10.1.1 Degree Day Comparison

Housing stock

The type and condition of homes have a critical effect on the amount of heat required to maintain an adequate level of heating. As shown in our survey results above low levels of insulation and larger homes occupied only by small families create a climate for fuel poverty.

Energy Market and Prices

Restricted choice of supplier and /or tariffs has a negative effect on energy costs which when combined with the need for more heating to maintain an adequate level of comfort pushes families into fuel poverty. This too has been demonstrated by our figures above.

The fact that Shetland is an off gas area is also critical in limiting energy costs. The unregulated fuel market for fuels such as domestic oils creates a captive market for many householders when paying for their energy needs.

Currently off gas areas pay much more than on gas areas to keep homes warm. The North of Scotland region pays more than the South of Scotland region and Pre Payment Meters customers pay more than anyone else. Most rural customers show little interest in switching supplier as demonstrated by our figures and the CMA's Energy Market investigation.

Our survey results demonstrated at 7.1 reinforces the benefits that can be achieved by switching energy supplier. It also demonstrates the problems found in Shetland and

other areas with certain non-changeable tariffs, for example Total Heating Total Control (THTC). Households with these tariffs cannot easily switch suppliers.

Government figures published by the Department of Energy and Climate Change demonstrate the rising trend in the cost of Electricity, as is shown in figure 10.1.1.

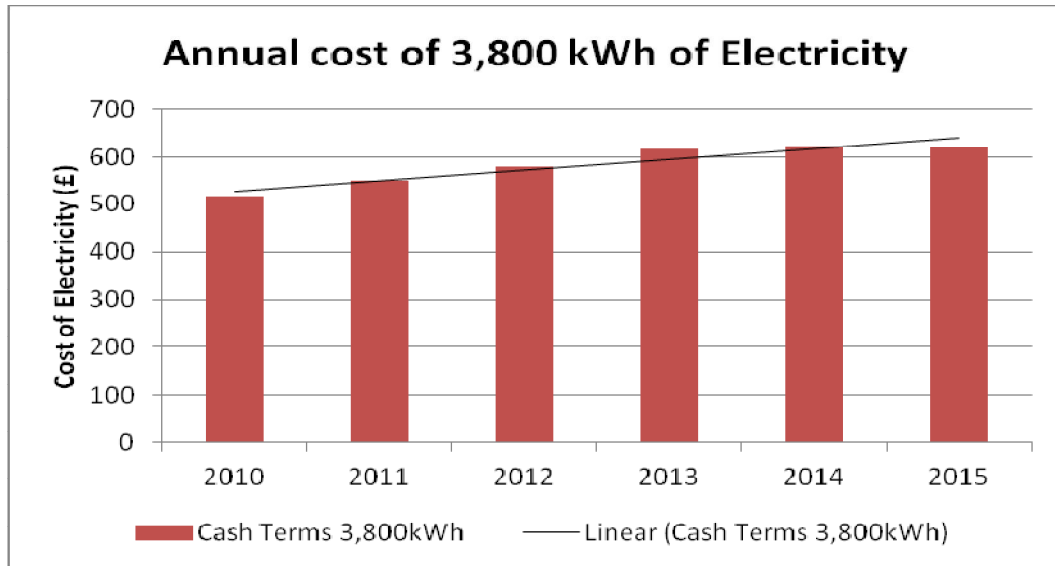


Fig. 10.1.1 Annual cost of 3,800 kWh of Electricity (DECC 2016)

This rise in electricity costs co-insides with the rise of 10% in fuel poverty levels in Shetland over this period.

Demographics

Rural communities have a much higher proportion of older people than urban areas, including many single pensioner households in under occupied houses. The Scottish Household Survey, Census stats and the Fuel Poverty Evidence Review carried out by Scottish Government's SHCS research team all have evidenced this as do our figures on households above.

In our survey 52% of households with three or more bedrooms and only one or two residents were in fuel poverty. This demonstrates the value of property downsizing where such property is available.

The distribution of fuel poverty in Shetland parallels the Energy Savings Trust fuel poverty distribution map, although the levels within the bands are now higher, the banding pattern remains accurate.

11 Conclusion

11.1 In November 2015 Shetland Islands Council carried out a domestic Fuel Affordability Survey of all Shetland homes. Of the 2425 who responded:-

- **53% are in fuel poverty.** - 1275 respondents answered yes to the question 'Do you estimate you spend more than 10% of your household income on heating and electricity costs? This matches the Scottish House Condition Survey figure published in 2016.
- The locality where **fuel poverty is highest is in the North Isles** (64%), followed by North Mainland (58%).
- **30% of households do not feel their home is adequately heated.**
- The highest fuel poverty rate was in Semi-Detached and End Terraced Houses. The majority of respondents were from detached properties, where 46% were in fuel poverty.
- The highest fuel poverty levels were in social rented homes. The highest number of responses were from owner occupiers.
- Respondents living in homes heated by electric boiler/panel heaters or electric storage heaters have the highest levels of fuel poverty. Of those not adequately heating their home, most had electric storage heaters (60%).
- The highest fuel poverty rates were found in households whose water was heated by electricity and solid fuel.
- **The highest fuel poverty was found to be in older, solid wall constructed properties.**
- **Properties with low insulation levels showed the highest fuel poverty.**
- The survey responses evidenced a level of under occupation, where households are living in properties larger than their household's needs.
- **Single person households living in their own homes, over the age of 65 were most likely to be in fuel poverty.**
- The highest levels of Fuel Poverty were found in properties with Council Tax Band A.
- Scottish Hydro (SSE) was the energy supplier for 93% of respondents.
- **Those paying by direct debit were less likely to be in fuel poverty than those paying weekly or by cash.**
- **The higher the annual electricity expenditure, the higher the fuel poverty level.**
- **The lower the annual household income, the higher the fuel poverty level.**
- **Those claiming benefits, regardless of age, were more likely to be in fuel poverty (81%).**

- Of those who did not adequately heat their home, most were owner occupiers (64%) and most were living in properties having 3 bedrooms.
- **Pre payment meters were the most expensive way of paying for electricity but were often used by those on low incomes.**

Shetland Fuel Poverty Action Group Action Plan

Context: Shetland's Commission on Tackling Inequality report made the following recommendations on how to address Fuel Poverty in Shetland:

- 1.1 A5.1 Work closely with UK and Scottish Government including through Our Islands Our Future and the Islands Bill process, to ensure the needs of Shetland households are understood and supported by national support available
- 1.2 A5.2 Investigate the potential for small-scale local dispersed community based district heating schemes drawing in external funding, in order to increase the heating options available in local areas across Shetland
- 1.3 A5.3 Request that SHEAP review pricing to investigate potential for pre-payment meters to be the same cost for electricity as other customers
- 1.4 A5.4 Raise awareness of the value of moving to smaller properties, if available, and provide support to householder, if necessary

The Fuel Poverty Action Group has taken the Commission's report recommendations and the evidence in the Fuel Affordability Report to develop the detailed action plan below:

| No. | Action | Lead Organisation |
|-----|--|---------------------------------|
| 1 | Maximise achievement of external energy efficiency/fuel poverty grant funding available from Scottish Government through writing grant funding bids eg Home Energy Efficiency Area Based Scheme; Scottish Energy Efficiency Programme. | SIC Carbon Management Team |
| 2 | Deliver a programme of fuel poverty grants to private householders throughout Shetland maximising the take up of all Grant Schemes and promoting access to householder support mechanisms. | SIC Carbon Management Team |
| 3 | Design and deliver a programme of energy efficiency works within Shetland Council houses e.g. EEESH. | SIC Housing Services |
| 4 | Design and deliver a programme of energy efficiency works , including the design of new energy efficient homes for Registered Social Landlord tenants throughout Shetland. | Hjaltland Housing Association |
| 5 | Manage the Repair Fund available for homes in need of minor works in order to help householders access energy efficiency grant funding which could not be accessed without this pre repair work. | Hjaltland Housing Association |
| 6 | Manage the Fuel Poverty and Energy Advice Service of Shetland Citizens Advice Bureau including the delivery of capacity building training for professionals working with vulnerable clients and direct support to vulnerable clients to support them to access Grant Schemes and/or better energy tariffs. | Shetland Citizens Advice Bureau |

| | | |
|----|--|-----------------------------------|
| 7 | Carry out benefits checks for householders to maximise their income and offer debt advice to support income stabilisation. | Shetland Citizens Advice Bureau |
| 8 | Carry out home energy advice visits to support householders better understand their energy needs and promote access to the local and national grant and loan schemes. | ES Energy Advisor(Shetland based) |
| 9 | Carry out in depth home energy surveys for the production of Energy Performance Certificates as a basic requirement of grant or loan funding referrals for the Home Energy Efficiency Area Based Scheme, the Warm Homes Scheme and for the energy efficiency loan schemes offered by the Scottish Government. | SIC Carbon Management Team |
| 10 | Manage the Home Energy Scotland phone line for referrals and advice, including benefits checks and general energy advice. | Home Energy Scotland |
| 11 | Commitment by all partners on the Fuel Poverty Action Group to cross refer clients (as indicated on the Fuel Poverty flowchart) to ensure that everyone is able to benefit from all the support available and to promote all schemes that benefit householders. | FPAG |
| 12 | Support the recommendations of the Scottish Rural Fuel Poverty Task Force by working closely with Scottish Government to act on its recommendations. | FPAG |
| 13 | –Work with Scottish Government to ensure funding streams reflect rural disadvantage for example using a Minimum Income Standard index and an energy price index for all fuel types as a basis for calculating funding levels. | FPAG |
| 14 | Work closely with Scottish Government to influence the design of the RdSAP tool and Energy Performance Certificates so that they better reflect the range of prevailing climate conditions experienced in Shetland including taking effect of draughts and wind driven rain on heat loss and fabric condition. This would better reflect Shetland needs in grant funding levels. | FPAG |
| 15 | Work closely with Government, Ofgem and energy suppliers to offer the best rate tariffs to all customers – particularly those on restricted meters targeting priority service register customers first ensuring that they are transferred to the best tariff for their needs. | FPAG |
| 16 | Investigate collective buying clubs for domestic oil and LPG to ensure Shetland customers obtain the cheapest rates possible for their needs. | FPAG |
| 17 | Work closely with Scottish Government to extend the 5p remote Areas Fuel Duty Discount to domestic oil and LPG. | FPAG |
| 18 | Work closely with the UK Government to ensure that the Smart Meter rollout is delivered in Shetland early in the programme and that the smart meters offered are of at least SMETS 2 capability. | FPAG |

| | | |
|----|---|-------------------------------------|
| 19 | Work closely with Scottish Government to ensure that there is available grant or loan funding for pre insulation repair works to ensure homes where insulation cannot be installed due to pre-existing damp or fabric problems can be repaired as a precursor to further energy efficiency work. | FPAG |
| 20 | Encourage local construction firms to upskill to the necessary levels of accreditation to enable them to deliver the grant/loan funding programmes available within Shetland. This could be means of offering training programmes or funding training elsewhere. | SIC |
| 21 | Encourage private sector landlords to upgrade the energy efficiency of their properties by accessing available grant and loan funding. | FPAG |
| 22 | Work closely with Ofgem, UK and Scottish Governments to ensure that electricity costs within Shetland are contained at an affordable level – particularly in light of the proposed new generation costs. | FPAG |
| 23 | Encourage local employers to pay the full living wage and ensure that appropriate sick pay is available to all employees. | SIC |
| 24 | Support local initiatives which circumvent the grid constraints currently experienced in project development in the use of renewables and support local energy production and self sufficiency thus enabling communities to derive and pass onto consumers the full social and economic benefits of the energy they generate. | SIC |
| 25 | Work closely with Scottish Government and Ofgem on the development of the new ECO 2 to ensure that those areas which pay in the most through high energy use receive the highest level of funding to support energy efficiency works. | FPAG |
| 26 | Respond to the Government's Social Security consultation to ensure that Winter Fuel Payments and Cold Weather Payments reflect the weather conditions in Shetland and are better targeted at those in Fuel Poverty. | FPAG |
| 27 | Maintain the successful working partnership with Warm Works to ensure that all available grant funds are delivered to the best advantage of Shetland householders sharing the burden of costs where applicable to obtain a holistic end energy efficiency improvement for the property. | Carbon Management Team |
| 28 | Explore opportunities for developing a process by which the Council's Estate Operations Service can subcontract local installers not yet able to achieve PAS2030 to work under the Council's accreditation to carry out works to support the various energy efficiency grant funds to increase access to grants and speed of delivering energy efficiency measures. | Director of Infrastructure Services |

**Development Committee****4 October 2016****Care Inspectorate Report on Housing Support Shetland**

Report Number: DV-46-16-F

**Report Presented by Executive Manager -
Housing****Development Services Department/
Housing Service****1.0 Summary**

- 1.1 This report presents the findings of the Care Inspectorate's short notice announced inspection of Housing Support Shetland carried out in May 2016 and published in July 2016.

2.0 Decision Required

- 2.1 That the Development Committee NOTES the positive report received and that no corrective actions are required at this time.

3.0 Detail

- 3.1 The Care Inspectorate carried out short notice announced inspection of Housing Support Shetland service in May 2016. The report of their findings was published in July. A copy of the full report, together with previous inspection reports, is available on the Care Inspectorate's website: <http://www.careinspectorate.com/index.php/index.php/care-services>.
- 3.2 The report awarded the following grades:
- | | |
|--------------------------------------|-------------|
| Quality of Care and Support | 5 Very Good |
| Quality of Management and Leadership | 5 Very Good |
- 3.3 The report noted the strengths of the service as continuing to have very good methods of ensuring service users play an active part in assessing and improving the service and that the staff team are confident and competent within their roles and familiar with service users' needs.

3.4 The inspector highlights that:-

- the service redesign has made the review and assessment of the people who access the service more focused and outcome led.
- staff are better supported, the management structure is clearer and there are more opportunities for staff to speak about practice.
- new style housing support assessment and support plans were seen to be much clearer and trackable.

3.5 In conclusion the report states that “it has been a challenging year for the service with much change, it has been well managed and improvements are clearly noticeable”.

4.0 Implications

Strategic

- 4.1 Delivery on Corporate Priorities – Good quality low level support to sustain tenancies is an important link to a number of national and local priorities about sustaining people in their communities.
- 4.2 Community/Stakeholder Issues – The Care Inspectorate seeks views and feedback from service users as part of their audit.
- 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 take decisions in relation to those functions within its remit which includes housing.
- 4.4 Risk Management – External inspections provide a consistent check on areas of risk in relation to specific service provision. No areas for action were highlighted in the report.
- 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 Care Inspectorate has published a very positive report on the Housing Support Shetland service following a short notice announced inspection carried out in May 2016.

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Date Finalised: 28 September 2016

List of Appendices

None

Background documents:

<http://www.careinspectorate.com/index.php/index.php/care-services>

END

**Development Committee****4 October 2016****Audit Scotland – Supporting Scotland’s Economic Growth – The Role of the Scottish Government and its Economic Development Agencies****DV-47-16-F****Report Presented by
Executive Manager – Economic Development****Economic Development
Development Services Department****1.0 Summary**

- 1.1 This report has been prepared to present the Audit Scotland report “Supporting Scotland’s Economic Growth”, which was published in July 2016. The full report can be accessed using this [Link](#). Its summary and recommendations are attached as Appendix 1. The report has been written to help the Council monitor actions resulting from external Auditors/Advisers reports, a policy that the Council adopted on 20 August 2014 (Min Ref: 61/14).

2.0 Decision Required

- 2.1 That the Development Committee RESOLVE to note the key messages and recommendations contained in Audit Scotland’s report, as shown in Appendix 1.

3.0 Background

- 3.1 As part of the Auditor General’s role to examine how public bodies spend public money and to check whether they achieve value for money, Audit Scotland have reviewed the development and implementation of Scotland’s Economic Strategy. This is a timely audit in the context of the Scottish Government’s own review of Economic and Skills organisations, which had not been published at the time this report was written.

4.0 Detail

- 4.1 The main conclusions and recommendations from the audit are set out in Appendix 1, at a fairly high level. These suggest that clearer targets, monitoring and reporting are required to improve performance. The extent to which the Scottish Government has accepted the conclusions and recommendations will be revealed when the Government's own review of Economic and Skills organisations is published.

5.0 Implications

Strategic

- 5.1 Delivery on Corporate Priorities – Understanding national perspectives on service delivery is a necessary part of service planning.
- 5.2 Community/Stakeholder Issues – This exercise did not involve any community engagement and the main direct stakeholders are the national bodies discussed in Audit Scotland's report.
- 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 – Failure to deliver effective external engagement and learn from best practice elsewhere increases the risk of the Council working inefficiently.
- 5.5 Equalities, Health and Human Rights – None.
- 5.6 Environmental – None.

Resources

- 5.7 Financial – No direct implications.
- 5.8 Legal – No direct implications.
- 5.9 Human Resources – No direct implications.
- 5.10 Assets and Property – No direct implications.

6.0 Conclusions

- 6.1 Audit Scotland's report recommends improving the links between Scotland's Economic Strategy and the main mechanisms of delivery. It is suggested that better targeting of resources is required and that roles need to be clarified better. The report has been published at a good time for the Scottish Government to use the information in its review of Economic and Skills development services.

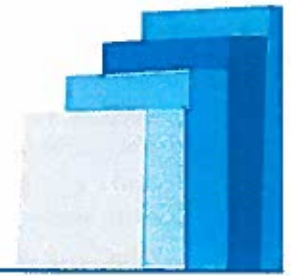
For further information please contact:
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Date Cleared: 27 September 2016

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- Appendix 1 Audit Scotland – Supporting Scotland's Economic Growth – Summary and Recommendations

END

Summary



Key messages

- 1** Since 2007 the Scottish Government has had a clear, overall purpose to create a more successful country, through increasing sustainable economic growth. Supporting economic growth is complex. Many factors influence the economy and most are outside the control of the public sector. A range of partners and partnerships are involved. The public sector's role is to create the conditions that encourage business growth, stimulate demand for goods and services and increase the economic participation of individuals. Five central government bodies are directly involved in this activity – Scottish Enterprise, Highlands and Islands Enterprise (HIE), VisitScotland, the Scottish Funding Council and Skills Development Scotland (the Strategic Forum partners). Of these, Scottish Enterprise and HIE have a specific remit to support economic growth across Scotland.
- 2** Scotland's economy was valued at around £142 billion in 2015. In 2014/15, Scottish Government funding for the Strategic Forum partners totalled £2.2 billion. All public sector spending contributes in some way to supporting growth, for example, spending on education, housing, health, transport and agriculture. As there is no agreed definition of economic development activity it is not possible to identify total public sector spending that directly supports economic growth.
- 3** The Scottish Government's economic strategy sets out its priorities and overall approach to support sustainable economic growth. It is a broad, high-level strategy and does not set out in detail how underpinning policies and initiatives will be implemented. Although the Scottish Government sets the strategic direction for the enterprise bodies, their specific functions and responsibilities are not set out in the economic strategy. The economic strategy states that progress will be measured through the National Performance Framework (NPF). The NPF measures progress towards economic targets and outcomes but it does not measure the contribution of policies and initiatives to delivering these outcomes. The Scottish Government has refreshed its economic strategy twice since 2007 and has developed and refreshed underpinning plans and policies. But it has not collated progress against these, or the contribution made by individual public bodies, to form an overall assessment of progress against the priorities in its previous economic strategies. Doing so will allow the Scottish Government to ensure that its economic strategy remains relevant and fit for purpose.

the enterprise bodies are performing well but the Scottish Government needs a clearer plan for delivering its economic strategy

- 4 In 2014/15, Scottish Enterprise and HIE's spending totalled £398 million. Their combined spending has decreased by 12 per cent, in real terms, since 2008/09. The enterprise bodies carry out similar types of activity, including supporting businesses, sectors and infrastructure projects, and influencing economic development decisions. HIE's distinct geography and additional remit to support communities means that its customers and rationale for its support can differ to that of Scottish Enterprise. Both bodies have clear, evidence-based strategies to prioritise their spending and activities. They have to take informed risks when deciding which organisations and activities to support. Good governance and accountability arrangements are in place to help inform their spending decisions and manage risks.
- 5 Scottish Enterprise and HIE have performed well against their agreed performance measures but it is not possible to accurately measure their contribution to the NPF. Measuring the impact of economic development activity is difficult but Scottish Enterprise and HIE perform a range of evaluation work to help demonstrate and improve their impact. We found good examples of the enterprise bodies working well with partners to achieve a positive impact, such as creating jobs and increasing businesses' turnover.
- 6 The full range of public sector support for businesses is not known which creates a risk of duplication and inefficiency. Public sector support is not well understood by businesses and there is scope to simplify arrangements and clarify roles and responsibilities. The landscape for supporting economic growth is changing and becoming more complicated, including reducing budgets, new financial powers for Scotland, the increasing prioritisation of 'inclusive growth', the creation of City Region Deals and the potential Islands Deal. It is therefore important that, as part of its review of its economic development and skills agencies, the Scottish Government considers how the enterprise bodies can best support the delivery of the economic strategy.

Recommendations

The Scottish Government should work with the main partners involved in supporting economic growth to:

- strengthen its approach to developing, delivering and monitoring the economic strategy by:
 - developing clear targets, timescales and actions for different aspects of the strategy and setting out specific responsibilities for public sector bodies
 - monitoring and reporting progress against the targets and actions
 - summarising how evidence, including stakeholder consultation, is used to develop future strategies and making this publicly available
 - routinely reviewing the economic strategy to ensure it remains relevant and fit for purpose

- estimate total spending on the four strategic priorities, by the main partners involved, to determine whether funding is being targeted appropriately
- assess the impact of public sector support for the growth and other key sectors to help determine the most appropriate focus for public sector support.

The Scottish Government, Scottish Enterprise and HIE should:

- in the context of the changing economic development landscape and as part of the Scottish Government's review of the economic development and skills agencies, consider how the enterprise bodies, taking into account their respective strengths and expertise, can best support the delivery of the economic strategy
- agree common performance measures, where appropriate, that are clearly aligned to the NPF. This will allow the Scottish Government to:
 - compare the enterprise bodies' performance
 - measure their individual and joint contribution to NPF targets
- regularly review whether their support, for example, to individual businesses or involvement in task forces, continues to add value. This should include reviewing the opportunity cost of continuing support in each case.

The Scottish Government should work with relevant partners to:

- identify the full range of public sector support for businesses to identify duplication and potential gaps and to ensure that public sector support complements private sector support
- clarify roles and responsibilities and consider how to raise businesses' and communities' awareness of the full range of available support
- review the remits and memberships of the various economic partnerships and groups that exist to help improve participation of the business sector in these groups, where appropriate.

**Development Committee****4 October 2016****Audit Scotland – Superfast Broadband for Scotland – A Progress Update****DV-49-16-F****Report Presented by
Executive Manager – Economic Development****Economic Development
Development Services Department****1.0 Summary**

- 1.1 This report has been prepared to present Audit Scotland's progress update on Superfast Broadband for Scotland. The report has been written to enable the Council to keep abreast of the detail in external Auditors/Advisers' reports. This is a policy that the Council adopted on 20 August 2014 (Min Ref: 61/14). Previous progress on this subject by Audit Scotland was presented to the Development Committee on 15 June 2015 (Min Ref: 30/15).
- 1.2 Audit Scotland's latest progress report on the project to provide Superfast Broadband comes at a time when the initial phase is nearing completion. This has allowed some conclusions to be made on the overall performance of the project, which in the main, has been successful. Unfortunately, Shetland is one of the six Council areas in Scotland where the contractual targets have still to be achieved. The progress report is attached as Appendix 1 to the report.

2.0 Decision Required

- 2.1 That the Development Committee NOTE the key facts and messages contained in Audit Scotland's report, as shown in Appendix 1.

3.0 Background

- 3.1 As the Scottish Government's investment in the project to extend the Superfast Broadband network throughout Scotland is over £400M, and is of high public interest, Audit Scotland has monitored the progress of the project closely.

4.0 Detail

4.1 In its key messages, Audit Scotland has confirmed that BT has achieved the target set for providing access to fibre broadband to 85% of Scottish premises by March 2016. BT is also on track to provide access to 95% of premises by December 2017. However, Audit Scotland also asserts that the remainder of the roll-out will be more challenging and that the actual speeds that users receive will vary, with 24Mb/s delivered to only 77% of premises. Page 11 of the update shows that 46% of premises in Shetland were unable to achieve speeds of 10Mb/s in July 2016, falling well short of the 85% target for Scotland. Only 14% of premises in Shetland have achieved 24 Mb/s.

4.2 Audit Scotland states that the Scottish Government still has much to do to “achieve its vision of a world-class digital infrastructure” in Scotland. One of the priority areas for action identified in the conclusions on page 16 is:

“The finalisation of clear plans setting out how 100 per cent access to superfast broadband is to be achieved, so that no communities are digitally excluded.”

5.0 Implications

Strategic

5.1 Delivery on Corporate Priorities – One of the top priorities for the Council’s Plan 2016-20 is to “Improve high-speed broadband and mobile connections throughout Shetland.”

5.2 Community/Stakeholder Issues – Consultation is continuing with HIE/BT and every opportunity is being sought to work cooperatively with the HIE BDUK project.

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 – Failure to deliver effective external engagement and learn from best practice elsewhere increases the risk of the Council working inefficiently.

5.5 Equalities, Health and Human Rights – None.

5.6 Environmental – None.

Resources

- 5.7 Financial – No direct implications.
- 5.8 Legal – No direct implications.
- 5.9 Human Resources – No direct implications.
- 5.10 Assets and Property – No direct implications.

6.0 Conclusions

- 6.1 It is good to read that 54% of Shetland premises will have access to at least 10Mb/s of broadband as a result of the Scottish Government's delivery of Superfast Broadband. It is however disappointing that Shetland is one of six Council areas where the contractual target of provision has not been achieved, and is well short of the national target, with only 14% of premises achieving 24 Mb/s as of July 2016.

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Date Cleared: 27 September 2016

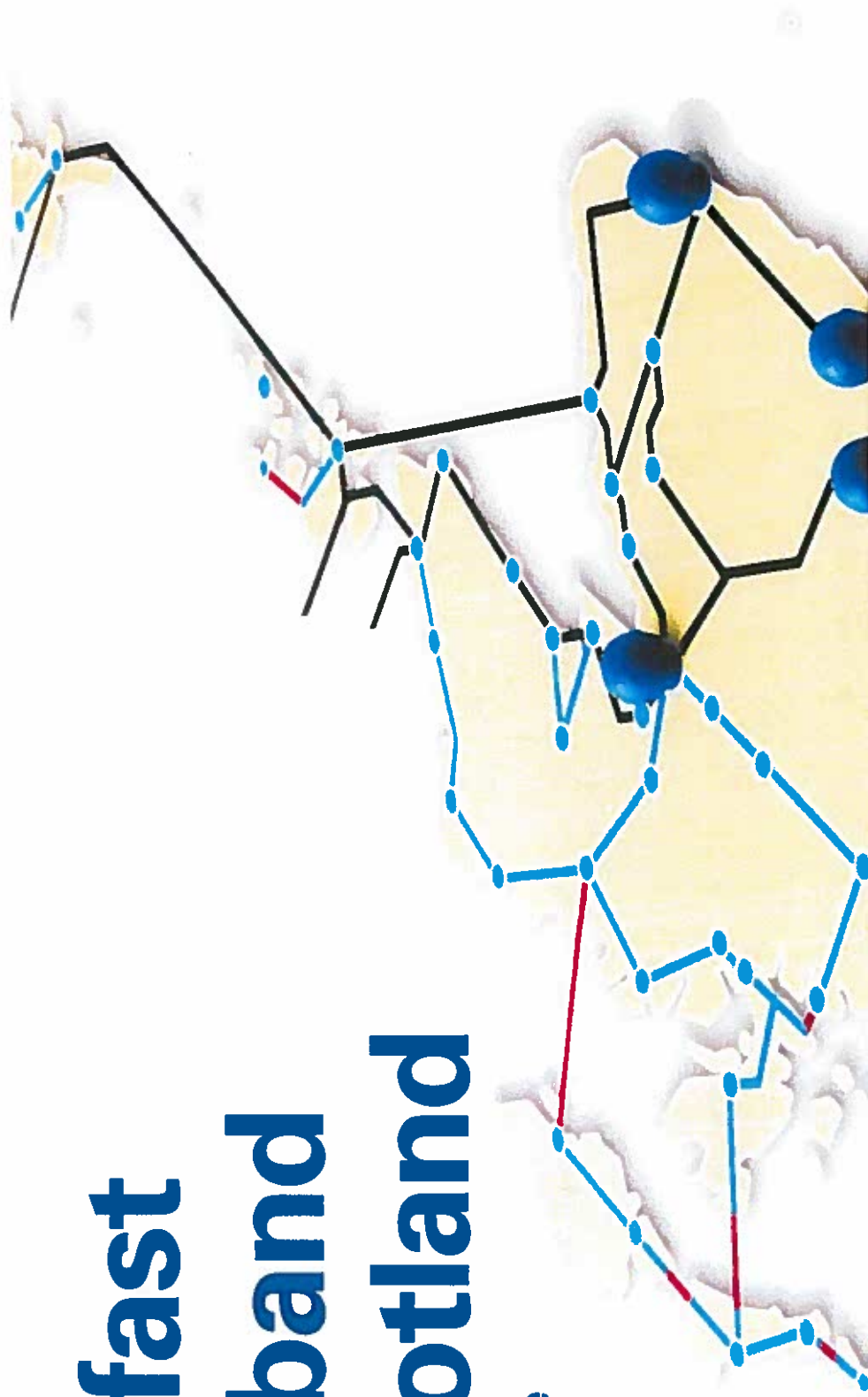
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- Appendix 1 Audit Scotland – Superfast Broadband for Scotland – A Progress Update

END

Superfast broadband for Scotland

A progress update



AUDITOR GENERAL 

Prepared by Audit Scotland
August 2016



Auditor General for Scotland

The Auditor General's role is to:

- appoint auditors to Scotland's central government and NHS bodies
- examine how public bodies spend public money
- help them to manage their finances to the highest standards
- check whether they achieve value for money.

The Auditor General is independent and reports to the Scottish Parliament on the performance of:

- directorates of the Scottish Government
- government agencies, eg the Scottish Prison Service, Historic Environment Scotland
- NHS bodies
- further education colleges
- Scottish Water
- NDPBs and others, eg Scottish Police Authority, Scottish Fire and Rescue Service.

You can find out more about the work of the Auditor General on our website: www.audit-scotland.gov.uk/about/ags 

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Key facts

About the contracts to deliver superfast broadband in Scotland

Why is the public sector investing in superfast broadband?

The Scottish Government aims to extend access to the fibre network in areas which aren't reached by the market alone, such as rural and remote communities and businesses. It anticipates that improved connectivity will stimulate business innovation, boost productivity and enhance Scotland's international competitiveness.

How much will the contracts cost?

A total investment of £412 million: £146 million for the Highlands and Islands, which covers the three island councils, Highland and Moray Councils and parts of North Ayrshire and Argyll and Bute; and £266 million for the rest of Scotland.

The Scottish public sector as a whole is expected to contribute funding of £165 million. The balance will be provided by the UK Government, the EU and BT.

What do the projects involve?

BT is looking to get the fibre network as close as technically possible to homes and businesses. Existing copper cabling will usually make the final connection to the home. In some areas, fibre cabling will be used the entire length although this is a more **expensive option**.

What will the contracts deliver?

The contracts with BT are expected to deliver access to a broadband network to:

- 85 per cent of premises by March 2016
- 95 per cent of premises by December 2017.

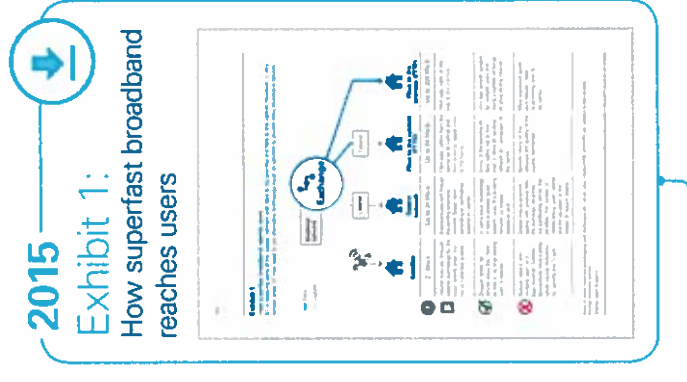
BT stated in the contracts that it expects 77 per cent of premises to achieve speeds of more than 24 Mb/s. But due to the length of copper cabling and other geographic and technical reasons, the Scottish Government, Highlands and Islands Enterprise (HIE) and BT cannot guarantee the actual speeds premises will receive.

What's next?

The Scottish Government has a vision for Scotland to have world-class digital infrastructure by 2020 to enable anyone in Scotland to communicate and connect instantly using any device, anywhere, anytime. To do this, it needs to enhance broadband coverage beyond that provided by the contracts. In May 2016, Scottish ministers committed to deliver 100 per cent superfast coverage by 2021.



£412 million



Key messages

- 1 The Scottish Government and HIE have appointed BT to extend the existing fibre broadband network in Scotland. The contracts are intended to make a major contribution towards achieving the Scottish Government's vision for a world-class infrastructure which would allow people to connect to the Internet anywhere, anytime, and on any device by 2020. Targets to provide access to fibre broadband to 85 per cent of premises by March 2016 have been achieved. The contracts are currently on track to provide access to 95 per cent of premises by December 2017, although the remainder of the roll-out will be more challenging.
- 2 So far, more premises connected to the network are modelled to receive speeds which exceed 24 Mb/s than is set out in the contracts. Across both contracts and areas provided through commercial coverage, the actual speeds that users receive will vary. Overall, premises in rural councils currently receive lower average speeds. The Scottish Government and HIE paid BT £156 million for work done up to March 2016. Lower than expected costs and higher than expected take-up has contributed to £23 million more being available to extend broadband coverage.
- 3 There is still much work to be done if the Scottish Government is to achieve its ambitious vision for Scotland to have world-class digital infrastructure by 2020. It needs to finalise plans to best use an additional £42 million available to extend broadband coverage and the future role of Community Broadband Scotland (CBS) in this. It also needs to define clearly what world class means and set out plans for how it will be achieved. In May 2016, it announced a new target of universal coverage of superfast broadband infrastructure across Scotland by 2021.
- 4 More could be done to address the recommendations in our previous report on the roll-out of broadband. Specifically, there is scope to enhance public reporting of performance information to help assess the success of the investment, including speeds and level of take-up achieved.

Introduction

Access to reliable and fast broadband is increasingly essential for everyday life

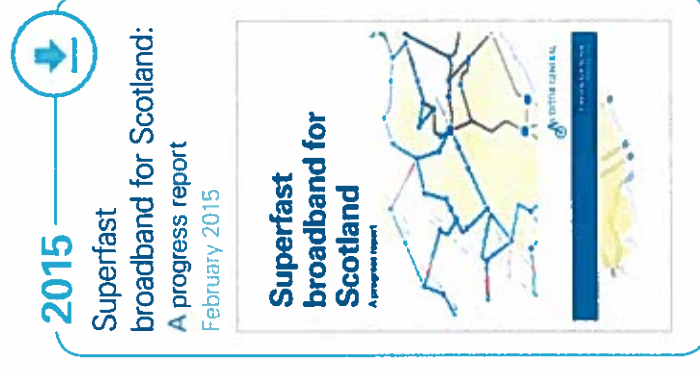
The Scottish Government set out its policy ambition, in January 2012, to deliver world-class digital access to all of Scotland by 2020. The interim milestone was a significant uplift in speeds for everyone by 2015, with speeds of 40-80 Mb/s for between 85 to 90 per cent of premises.

In 2013, the Scottish Government and HIE separately contracted BT to help deliver the Scottish Government's aim by extending the existing fibre network across the country. Alongside commercial coverage, the contracts are intended to provide access to fibre broadband to 85 per cent of premises by March 2016, and 95 per cent of premises by December 2017. BT expects at least 77 per cent of premises with access to the network to achieve speeds of more than 24 Mb/s.

Our report [***Superfast broadband for Scotland: A progress report***](#) in February 2015 considered the progress of the two projects to date. We agreed with the Scottish Parliament's Public Audit Committee to monitor the programme until both contracts are completed in 2018.

This update examines:

- what progress the two contracts have made to date in rolling out a superfast broadband network
- the Scottish Government's plans for further investment in superfast broadband
- how the Scottish Government and HIE have responded to the recommendations in our original report

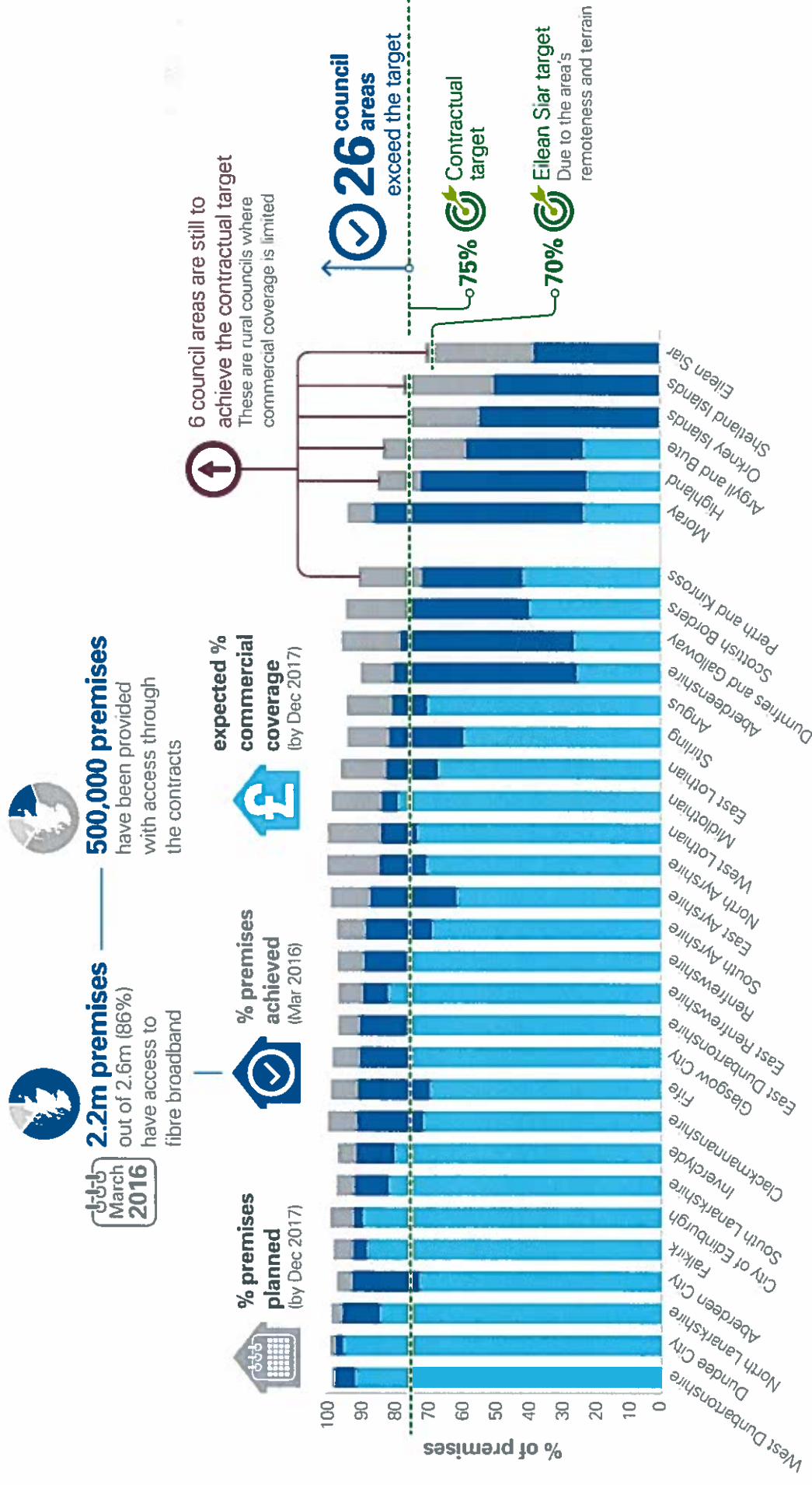


Links

-  [Progress against 2015 recommendation](#)
-  [PDF download](#)
-  [Web link](#)

Progress

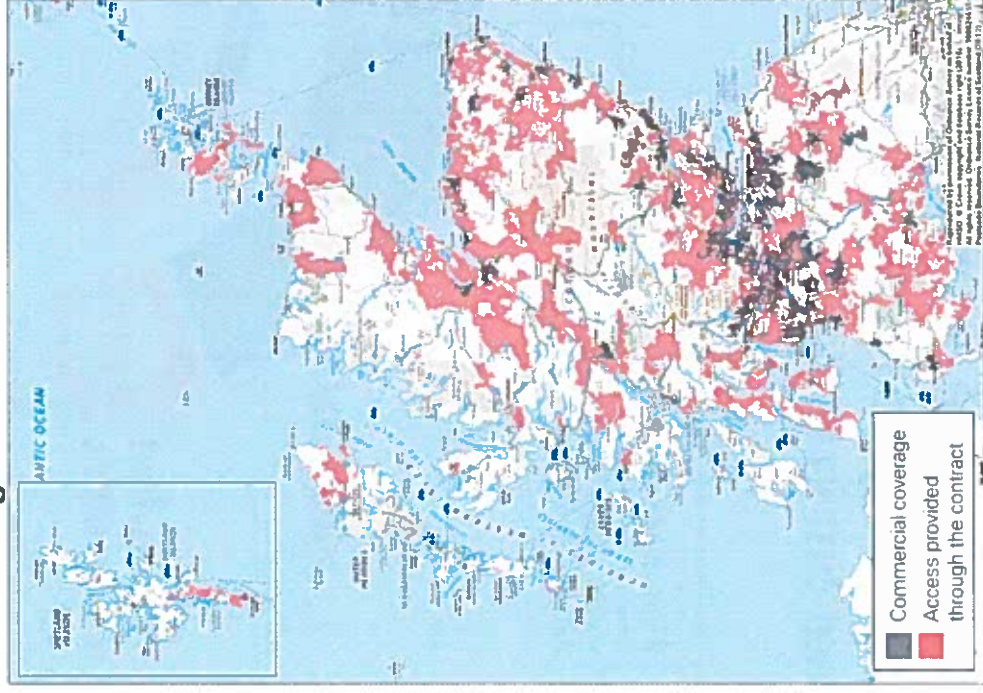
The Scottish Government achieved its target to provide access to fibre broadband to 85 per cent of premises by March 2016



Source: First of Scotland contract award recommendation report, HIE board papers and Scottish Government's project monitoring files

The projects are currently on track to provide access to 95 per cent of premises by December 2017, although the remainder of the roll-out will be more challenging

 Coverage to March 2016



 **95% coverage**

Assuming both projects continue to meet their contractual targets, the Scottish Government can expect to achieve its 95 per cent coverage target by December 2017.

The contractual target is the minimum number of premises that BT must provide with access to the network each quarter to be paid for the work it does.



So far, the roll-out has concentrated on the easier to reach areas. The areas that remain are more remote and likely to need more complicated and costly engineering solutions. Project teams are monitoring what this means for the rest of the roll-out.

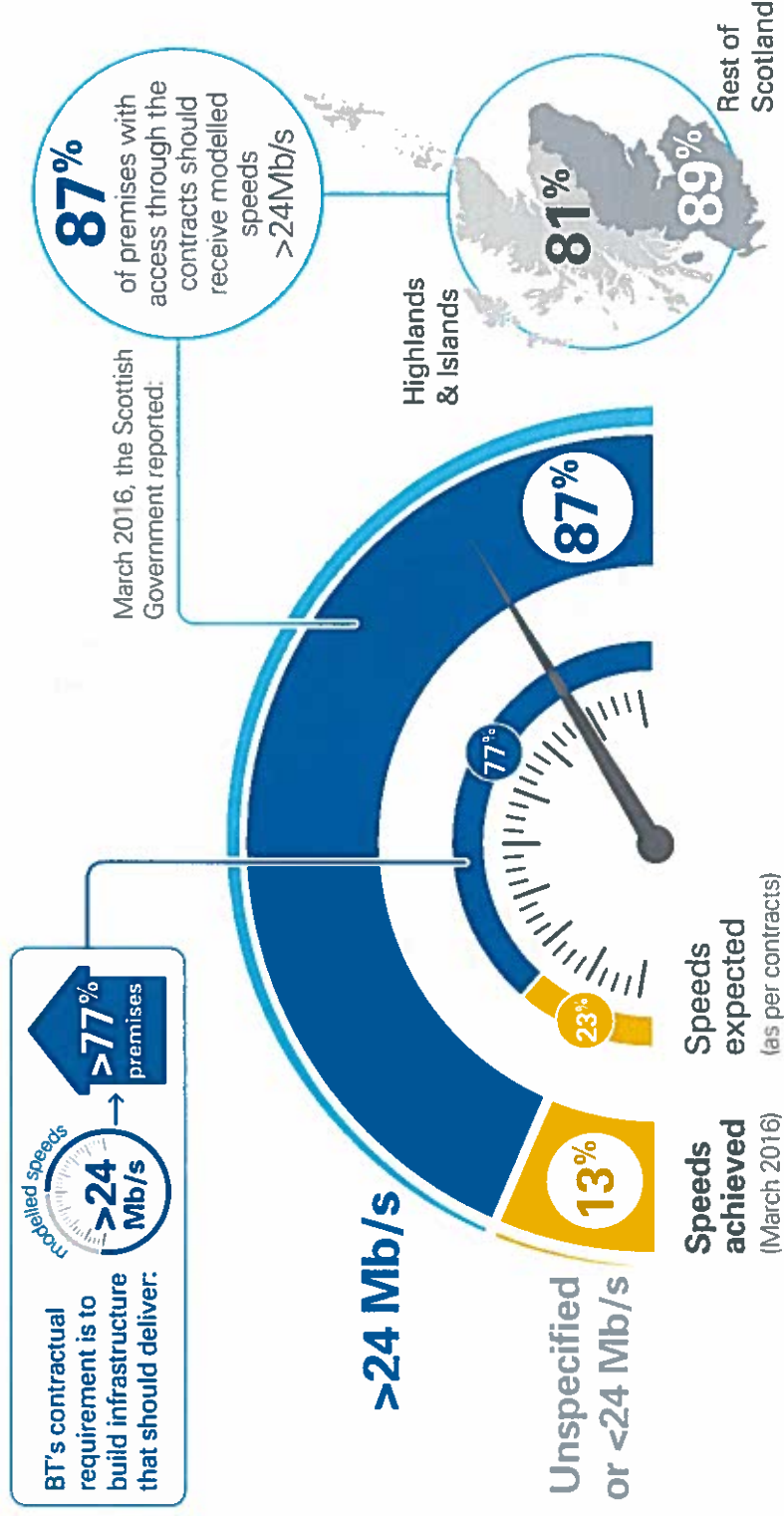
 **£1,700**

There is a cap of £1,700 on how much BT can spend on each premise. When it costs more than £1,700 to make a connection available, BT may be allowed to proceed depending on value-for-money considerations, including levels of existing coverage and the availability of other technical options.

 **?150**

So far, solutions have not been found for 150 premises, out of the 4,600 premises which have breached the cap (3.3 per cent).

So far, more premises with access to the network are modelled to receive speeds exceeding 24 Mb/s than set out in the contracts



Progress against 2015

Recommendation 1

The Digital Scotland website gives details on whether a premise has access to fibre, and if not, its current status.

If fibre access is planned within the next six months, this will be specified.

Timescales beyond six months are not shared publicly as the Scottish Government and HIE are not able to commit to these, until BT has completed its survey work.

The website also gives a range of speeds premises can receive if they have access to the fibre network.



The Digital Scotland website:

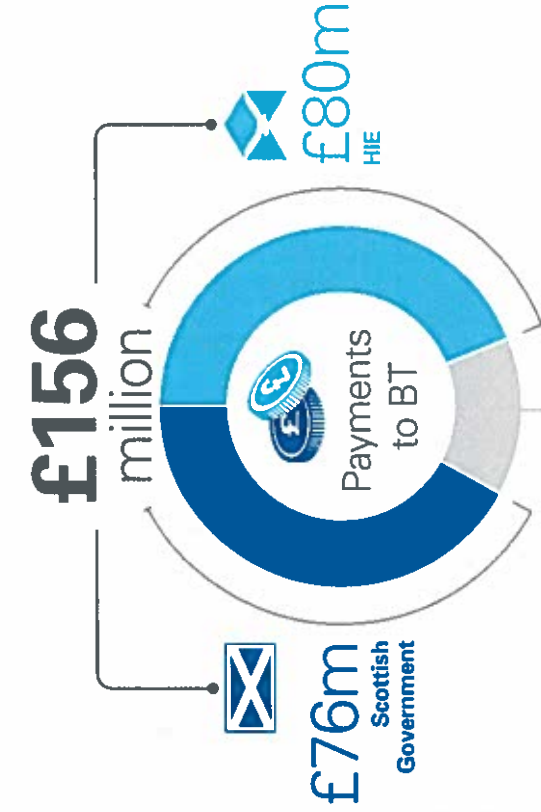
www.scotlandsuperfast.com

Source: Speed coverage templates in both contracts and contract monitoring documents

The infrastructure that BT is building will not provide speeds of 40-80 Mb/s to all premises. It will deliver these speeds to some premises and improved speeds to others.

The Scottish Government, HIE and BT believe this can be built upon in the future to deliver world-class infrastructure.

The Scottish Government and HIE have paid BT £156 million for work completed by March 2016

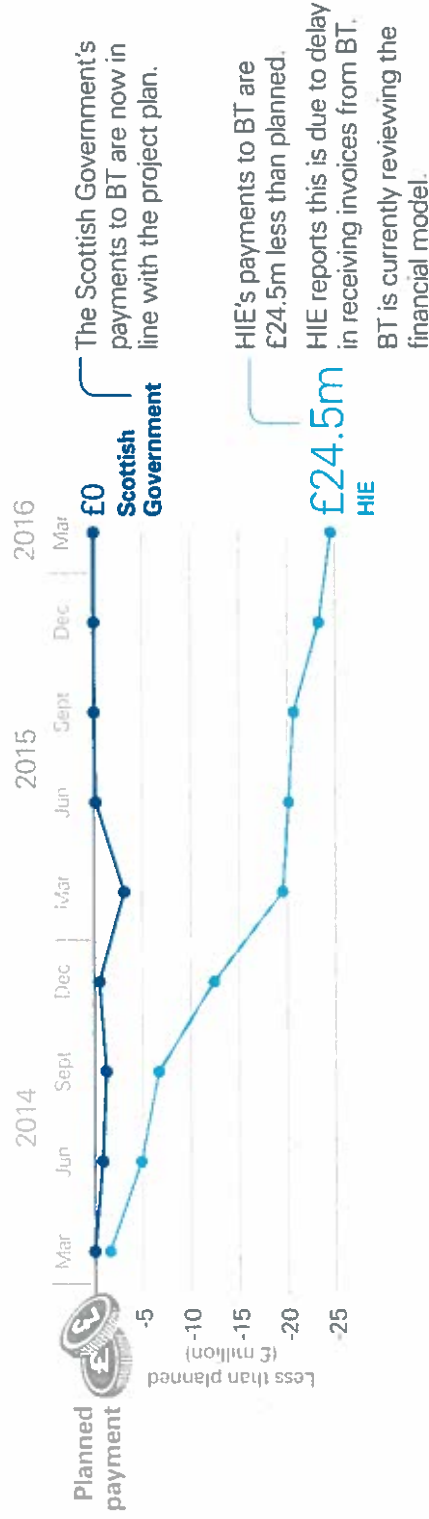


Highlands and Islands

BT is modelling how it can use this money to extend coverage.

Rest of Scotland

The Scottish Government considers this is a result of providing access to premises in easier-to-reach areas with simpler technology than previously modelled. It expects BT's contribution to increase as the roll-out reaches more difficult areas. The Scottish Government is monitoring the spend and if this money is not needed, it could be used to further extend coverage.



More money is available to extend broadband coverage, due to lower than expected costs and higher than expected take-up



BT is currently modelling how to extend coverage, using £27 million for the rest of Scotland and £10 million for the Highlands and Islands.

£23 million of this is from lower than expected costs and higher than expected take-up; £14 million is from conditions in the contract.

Rest of Scotland
£27 million

Sources of funding

Highlands & Islands
£10 million



The use of different technologies and **lower than expected costs** mean BT can deliver more than expected in the Highlands and Islands.

BT originally expected that 20 per cent of premises would take up superfast broadband by the end of the contracts in December 2017. As **take-up** has been higher than expected (around 24 per cent of premises had connected by the end of June 2016), BT offered to release early a share of the additional income generated, to be used for reinvestment. BT now expects take-up to be 30 per cent. If take-up exceeds 30 per cent then this will trigger BT's release of further funding for reinvestment.



Both contracts include **innovation funds** intended to extend coverage beyond that which could be modelled in 2013. The Scottish Government has used some of this money to make up a shortfall in ERDF funding. HIE has allocated £0.05 million of this money to satellite broadband provision. The remainder will be used to extend coverage.



The rest of Scotland contract allows 21,000 premises to be provided with standard broadband (speeds of at least 2 Mb/s) using **non-fibre technology**. These premises can now apply to the Better Broadband Scheme as an alternative. So far, only 500 premises have applied and 50 have taken up the offer.



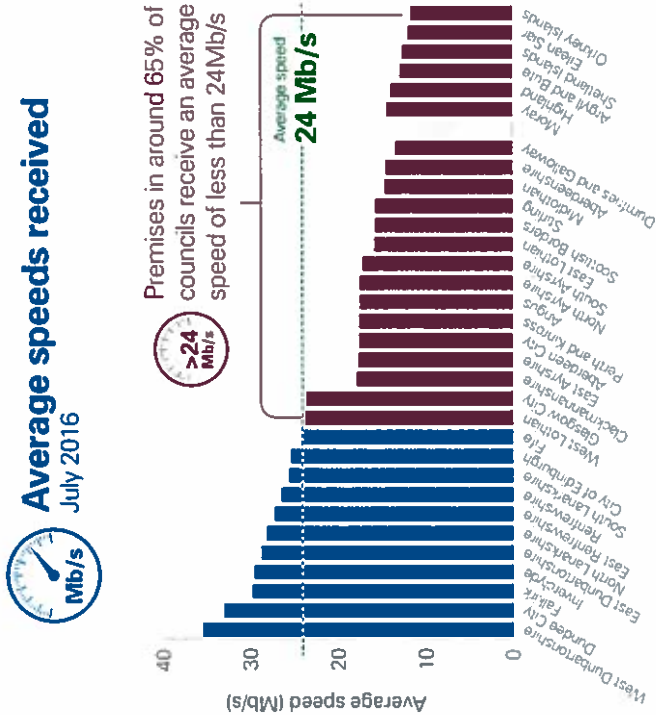
HIE paid BT an **advance payment** of £20 million as part of contract negotiations. The interest on this advance payment will be spent on backhaul and extending coverage.



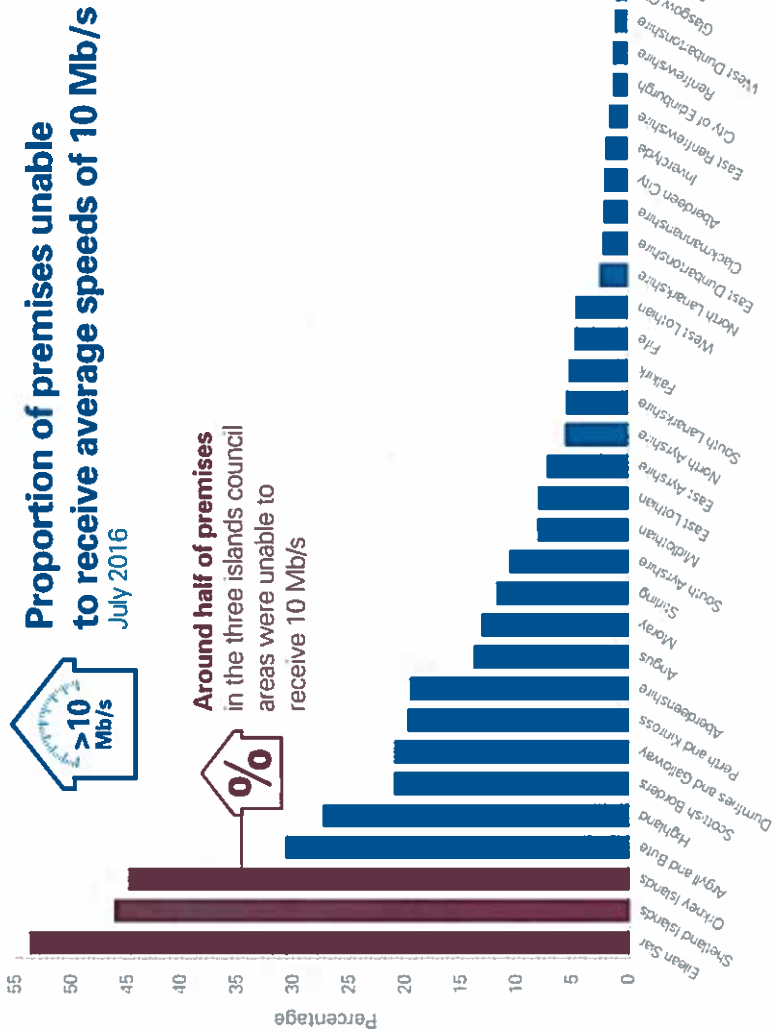
Overall, premises in rural councils currently receive lower average speeds

People's experience of broadband speeds varies across Scotland. The actual speeds that premises receive are dependent on a number of factors, such as:

- the package bought from Internet service providers
- the number of people connecting to the Internet at the same time
- the quality of the copper connection and the internal wiring of properties.



In November 2015, the UK Government announced that it would introduce a universal service obligation to ensure all premises can receive a minimum of 10 Mb/s from their broadband provider. Ofcom has reported that currently 14 per cent of premises in Scotland cannot receive 10 Mb/s. Most of these premises are in rural areas, where this figure rises to 57 per cent of premises.



Note These figures relate to premises with access provided by both commercial operators and through the contracts Source thinkbroadband website

What comes next?

The Scottish Government is still to finalise plans to best use an additional £42 million available to extend broadband coverage outside the contracts

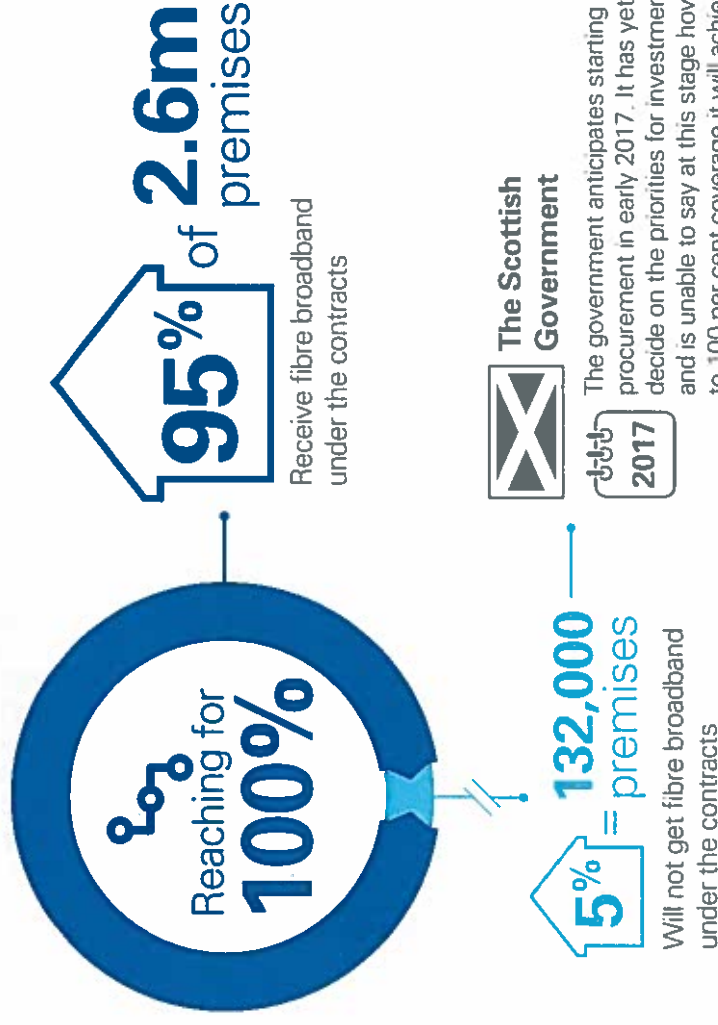


The Scottish Government established a 'reaching for 100 per cent' project team in 2016, to take forward the delivery of the infrastructure that will support superfast broadband to premises that are not covered by existing or planned infrastructure. We calculated in our 2015 report that about 132,000 premises will not get fibre broadband at all under the contracts.

The Scottish Government has still to finalise plans to extend coverage outside the current contracts. It has £42 million available, but it has been unable to take forward further procurement for two main reasons:

- Existing EU state aid approval for broadband projects ran out in June 2015. The UK Government received new approval in June 2016, allowing the Scottish Government to take forward its planning for further procurement.
- BT is modelling how the funding available from lower than expected costs and higher than expected take-up ([page 10](#)) can be used to extend coverage. This is taking longer than anticipated as it needs to remodel, because competitors are building in areas where there had been no previous indication the market would invest. This means that, under state aid rules, these areas are no longer eligible for public funding.

To encourage competition, the new EU approval sets a preference for a series of smaller contracts to extend broadband coverage into areas it is yet to reach. In practice, the size of each contract area will depend on the level of market interest and value for money considerations.



The government anticipates starting procurement in early 2017. It has yet to decide on the priorities for investment, and is unable to say at this stage how close to 100 per cent coverage it will achieve.



It considers that further funding above the existing £42 million is likely to be necessary. The Scottish Government is working to identify additional sources of funding.



There may be implications for broadband investment from the UK leaving the EU but these are not yet clear.

The Scottish Government is considering the future role of Community Broadband Scotland in extending coverage

The Scottish Government established Community Broadband Scotland (CBS) in 2012 to provide broadband solutions to some of the remote, rural communities.

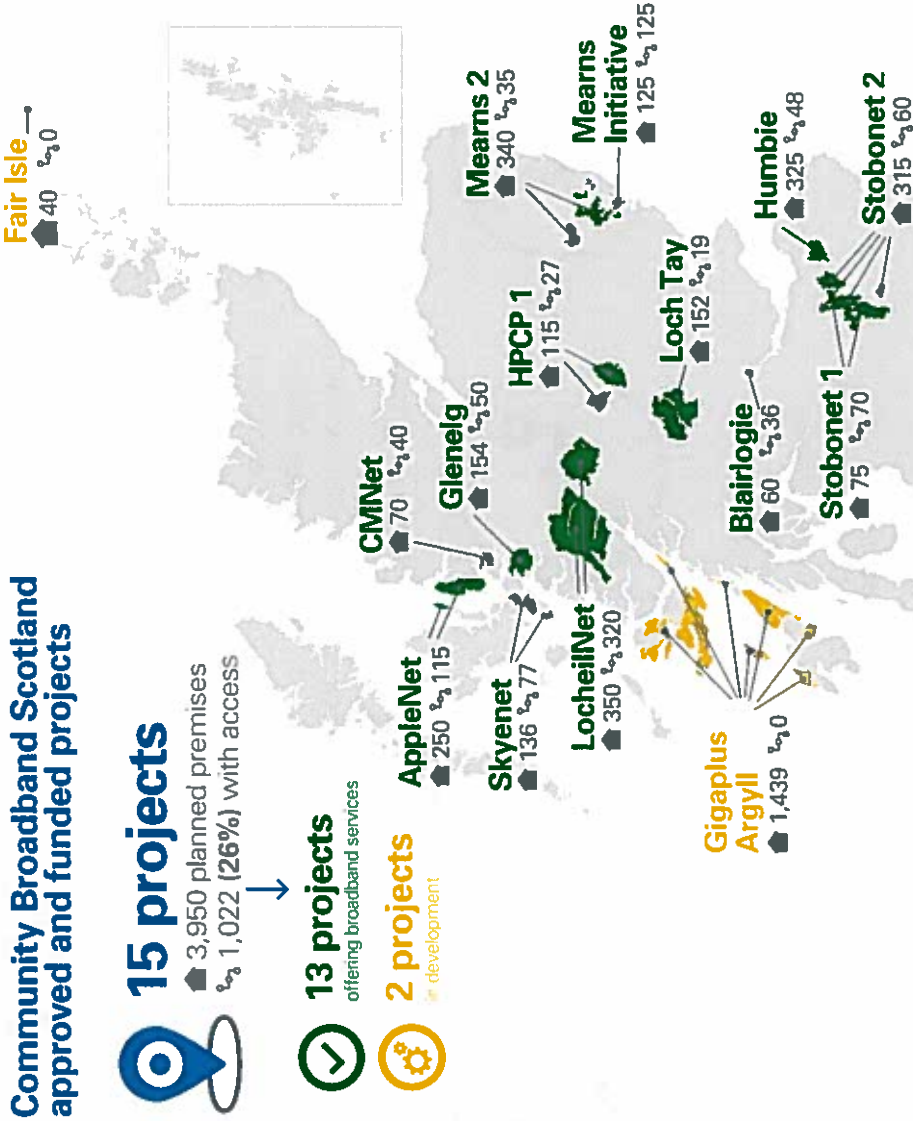
CBS has approved funding of £2.1 million towards the cost of 15 projects, which will provide 3,950 premises with access to superfast broadband. Thirteen of these projects are now offering broadband services to people in their community.

Further projects are being developed, some of which were delayed when the EU state aid approval for broadband ran out in June 2015. The June 2016 approval will now allow these projects to proceed.

There are more projects in the development pipeline than CBS currently has budget for. Many of these are at a very early stage and it is not yet clear if, and when, they will be achieved.

The Scottish Government is currently considering the role of CBS within the 'reaching for 100 per cent' project, including whether it will have a role in managing projects.

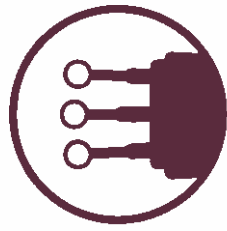
CBS feels it is constrained in getting projects to procurement because of the lack of information around where the existing contracts with BT will deliver, and how the additional £42 million will be used.



There is still much to be done if the Scottish Government is to achieve its vision of world-class infrastructure

The Scottish Futures Trust (SFT) has been working to develop the Scottish Government's vision of a world-class infrastructure which will allow people to access the Internet anywhere, anytime and on any device.

SFT has identified six interconnecting key 'pillars' of infrastructure that it believes are necessary to deliver world-class infrastructure. A world-class digital infrastructure involves more than faster home connections. It includes mobile connectivity and associated infrastructure.



Fibre

Fibre to homes and businesses forms the backbone of any superfast network. It is also needed to connect mobile masts.



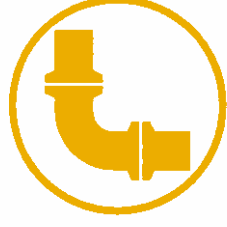
Power

Masts and exchanges need a power supply, in some areas this has been the limiting factor for roll-out.



Spectrum

Used to transfer data between mobiles.



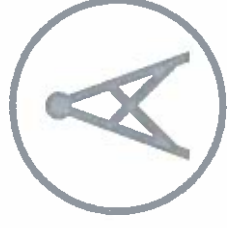
Ducting

The pipes that carry the fibre wires. For world-class infrastructure these need to be open to all operators.



Exchanges

Where internet traffic is exchanged. While there is an exchange in Scotland the majority of data must be sent to England before returning to Scotland.



Masts

Radio transmitters that are needed to make mobile phones work. They can be used to provide wireless Internet in remote areas.



The Scottish Government has still to finalise its plans for delivering its vision for world-class digital infrastructure by 2020.

2020



This will require consideration of what world-class looks like and how best to use new technology to achieve it.

Further work is needed to develop public reporting of performance

In 2015, we recommended that the Scottish Government and HIE should further develop their [performance measurement frameworks](#).

This included developing measures that address:



Speeds delivered



Unit cost of providing access to fibre broadband to each premises



Levels of take-up



Measures that allow benchmarking with other countries



The Scottish Government and HIE have developed robust contract monitoring processes. The Scottish Government relies on Ofcom to report on progress against overall coverage targets, including data on commercial coverage.

Ofcom also publishes other information on broadband including speeds achieved and level of take-up for each nation of the UK. It also publishes a comparison of the UK's digital performance against that of other European countries.

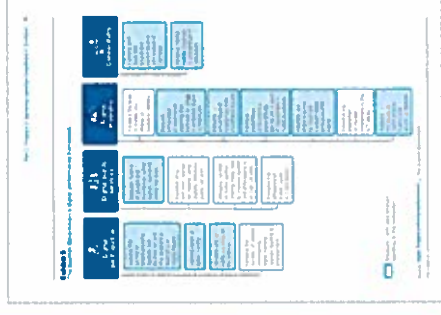
We consider the Scottish Government could make more information publicly available, including:

- publishing information on progress of the two contracts, including speed and coverage data, to help assess the success of its investment
- providing a link from the Digital Scotland website to Ofcom's published data on overall coverage in Scotland
- working with Ofcom to benchmark Scotland's performance against other countries.

2015

Exhibit 9:

The Scottish Government's digital performance framework



Conclusions

The Scottish Government and HIE have made good progress in the roll-out of fibre broadband in Scotland to date. So far, most of the roll-out has been concentrated on easier-to-reach areas. There is a continuing need to monitor carefully the progress and cost of further roll-out once it extends into more difficult areas if the 95 per cent coverage by December 2017 target is to be achieved.

Although progress with the contracts is good, many premises across Scotland currently do not get 10 Mb/s. There is still much to be done if the Scottish Government is to achieve its vision of a world-class digital infrastructure. Priority areas for development include:

- The finalisation of clear plans setting out how 100 per cent access to superfast broadband is to be achieved, so that no communities are digitally excluded.
- How best to use digital technologies and build a world-class digital infrastructure fit for the future.
- How best to continue to encourage take-up to ensure the benefits of investment are maximised.
- Improved public reporting of progress and performance, to measure the benefits achieved from its investment and to allow benchmarking with other countries.



Audit Scotland will continue to monitor the progress of the roll-out of fibre broadband. We plan to undertake a further audit of the performance of the two contracts and progress towards the world-class vision which will be reported in 2018.

Appendix

Progress against recommendations in our 2015 report

Recommendations (summarised)

Progress

The Scottish Government should:



improve ways of publicly reporting the coverage and speeds its investment in superfast broadband will deliver.

The website gives details on whether premises have access to fibre, and if not, its current status. If fibre access is planned within the next six months this will be specified. Timescales beyond six months are not shared publicly as the Scottish Government and HIE are not able to commit to these until BT has completed its survey work. The website also gives a range of speeds premises can receive if they have access to the fibre network.

Little information is available for those that won't be covered by existing contracts. The Scottish Government is still to finalise plans outlining the use of the additional £42 million available to extend coverage outside the contracts.

The Scottish Government and HIE should:



encourage take-up of superfast broadband to maximise the benefits of their investments and identify what further work is needed to realise these benefits.

The Scottish Government and HIE have sought to stimulate demand for and promote the benefits of broadband through marketing campaigns and events alongside local councils and Business Gateway Scotland. Currently, the take-up is higher than originally expected (26 per cent for Highlands and Islands and 23 per cent for Rest of Scotland at the end of June 2016), resulting in an additional £17.8 million being made available to extend coverage.



develop clear plans, by June 2015, for the use of a further £42 million available for investment in superfast broadband. These plans should strike an appropriate balance between extending coverage in areas where there is no access to superfast broadband, and increasing speeds in premises with low speeds.

The Scottish Government has still to finalise plans outlining the use of an additional £42 million available to extend coverage outside the current contracts. It has been unable to take forward further procurement for two main reasons:

- Existing EU state aid approval for broadband projects ran out in June 2015. The UK government received new approval in June 2016, allowing the Scottish Government to take forward its planning for further procurement.
- BT is modelling how the funding available from lower than expected costs and higher than expected take-up ([page 10](#)) can be used to extend coverage. This is taking longer than anticipated as it needs to remodel, because competitors are building in areas where there had been no previous indication the market would invest. This means that, under state aid rules, these areas are no longer eligible for public funding.

Recommendations (summarised)

Progress



review work programmes and payment profiles and make any changes necessary to ensure that payment is closely linked to successfully achieving the agreed targets.

Payments to BT are £24.5 million less than originally planned.

- The Scottish Government's payments to BT are now in line with the project plan.
- HIE has paid BT £24.5 million less than planned.

BT's spend is less than originally planned.

- The Scottish Government has not made any changes to payment profiles but is monitoring the spend.
- For HIE, BT is reviewing the financial model at the same time as its modelling exercise, which will likely result in revised payment profiles.



keep staffing levels and workloads under review and alter the skills mix and number of staff when needed, to ensure that project teams are able to fulfil their contract management and monitoring roles well.

Staffing in the Scottish Government and HIE remains sufficient for the workload.

The Scottish Government has added three posts. HIE considers it may need to create an additional post depending on the nature of the next phase of procurements.

Both the Scottish Government and HIE recognise there are risks that short-term appointments won't hold expertise within the team.




further develop their performance measurement frameworks, including measures that address speeds delivered, the unit cost of providing access to superfast broadband to each premise and levels of take-up, as well as measures that allow benchmarking with other countries' implementation of superfast broadband.


We consider the Scottish Government could make more information publicly available, including:

- publishing information on progress of the two contracts, including speed and coverage data to help assess the success of its investment
- providing a link from the Digital Scotland website to Ofcom's published data on overall coverage in Scotland
- working with Ofcom to benchmark Scotland's performance against other countries.

Superfast broadband for Scotland


A progress update

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Shetland Islands Council

Development Committee

4 October 2016

Yell and Unst Fibre Optic Broadband Upgrade

Report No: DV-52-16-F

**Report Presented by: Director of
Development Services**

Development Services Department

1.0 Summary

- 1.1 The purpose of this report is to ask the Committee to consider progress and the next steps in achieving 100% high speed broadband availability to households and businesses in Shetland and improving 4G Mobile network coverage.
- 1.2 The two specific actions which were identified for progress at the Development Committee meeting on 29 August 2016 were the development of a detailed Lobbying Strategy and costed plan for delivery of Fibre Network to Yell and Unst.

2.0 Decision Required

- 2.1 That the Development Committee notes progress and next steps towards achieving 100% high speed broadband availability.

3.0 Detail

- 3.1 At its meeting on 13 June 2016 [Min Ref: 31/16], the Development Committee agreed to pursuing a set of actions including the development of a detailed Lobbying Strategy and to work up a Business Case for the delivery of Fibre Network to Yell and Unst.
- 3.2 The Development Committee, at its meeting on 29 August 2016 [Min Ref: 35 /16] sought assurances from the Director of Development Services that the Lobbying Strategy and Yell and Unst Network Business Case be produced without further delay.

- 3.3 The detailed Lobbying Strategy for making representations to the Scottish and UK Governments and the EU has been issued directly to Members.
- 3.4 A Business Case is being prepared for a public sector network to Yell and Unst which could provide the backhaul spine for a community network and mobile infrastructure.
- Whilst the network infrastructure costs based on a fibre network have been estimated and revenue savings on the Council's ICT budget are also relatively straightforward to estimate, they do not on their own present an investible case without further strategic and socio economic justification. This work is progressing based on the strategic case which the Council developed with facilitation from Farrpoint Ltd.
 - Sub-sea crossings to Yell and Unst - discussions have taken place with Scottish and Southern Energy (SSE) at local and national level to request access to the planned sub-sea power cable ducts. The MSP and Council Leader have both separately written to the Chief Executive Officer of SSE requesting access to the power cable ducts for Broadband Fibre Network and this issue has also been picked up by HIE and Scottish Government as sea crossing opportunities exist in other island areas outside of Shetland. The initial responses have been positive and discussions are ongoing.
- 3.5 The business model for the operation of the Shetland Telecom project, which continues to provide connection solutions for the Council, Telecom Companies, and communities and continues to generate a net surplus for the Council, requires review to ensure the Council continues to provide services through the project which are properly resourced and supported.
- 3.6 Actions/Next Steps
- Action and reporting on Lobbying Strategy.
 - Continue to work up a costed Business Case for the provision of Fibre network to Unst and Yell, investigating all possible options for delivery including negotiated sharing of grid crossings in the two sounds;
 - Review business options for the effective delivery of Shetland Telecom services; and
 - Re-establish quarterly meetings with the Digital Scotland Superfast Broadband (DSSB) project team.

4.0 Implications

Strategic

- 4.1 Delivery of Corporate Outcomes – Shetland Islands Council's Our Plan 2016 - 2020 has as a top priority to 'Improve high-speed broadband and mobile connections throughout Shetland.'
- 4.2 Community/Stakeholder Issues – discussions have been held with North Isles Community Broadband on a community broadband network proposal.
- 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 – The detailed risks associated with the options for the Council's continuing and future role in the provision of high speed broadband connections across Shetland are covered in the Business Case. The outcomes of this process will be used to determine the digital connectivity roles of Council ICT and Shetland Telecom projects in the longer term.

The Shetland Telecom project network requires to be adequately supported to continue to provide network services, and provide new connections where there is a positive economic case to do so. This has been budgeted for in the 2016/17 budget, and the project continues to provide a significant surplus despite the rundown in local construction projects, notably the Shetland Gas Plant construction.

- 4.5 Equalities, Health and Human Rights – None arising directly from this report. However, digital connectivity will play an increasingly important role in how the Council and its community partners deliver services now and in the future.
- 4.6 Environmental – None arising directly from this report. The environmental impacts of any works on telecommunications infrastructure required for aspects of telecoms projects are considered as an integral part of each development.

Resources

- 4.7 Financial - All work identified in this report will be covered within existing budgets. Service needs case/spend to save cases will be made as required. Any financial implications identified in the business case mentioned in paragraph 3.6 above will be presented in future reports.
- 4.8 Legal – None.

- 4.9 Human Resources – None.
- 4.10 Assets and Property – Any further investment in assets will be covered by subsequent reports.

5.0 Conclusions

- 5.1 The build out of the Highland & Islands wide BDUK network by HIE and BT is nearing completion of Phase1. The Scottish Government Ministers have made commitment to provide high speed broadband to 100% of households and businesses by 2021, but have not yet announced how this might be achieved. It is important the Council continues to effectively lobby to improve delivery of Broadband and mobile networks in Shetland, through the national programmes.

For further information please contact:
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E-mail: nrj.grant@shetland.gov.uk
Report finalised: 30 September 2016

END



**Development Committee
Policy and Resources Committee**

**4 October 2016
24 October 2016**

Economic Development Lending Service

Report No: DV-48-16–F

**Report Presented by: Executive Manager –
Economic Development**

**Economic Development
Development Services Department**

1.1 Summary

- 1.1 This report concerns the Council's lending service which operates as part of the Economic Development Service. Following the Council decision in April 2016 to establish a Local Investment Fund of £15m, work has continued to review the policies and procedures in place to manage the lending activity. This report updates on progress and presents policy documents for approval.

2.0 Decision Required

- 2.1 That the Development Committee RECOMMEND that the Policy and Resources Committee RESOLVE to:
- 2.1.1 Approve the Lending Policy Guidelines attached as Appendix 1.
- 2.1.2 Approve the Interest Rate Calculation Guidelines attached as Appendix 2.

3.0 Detail

- 3.1 A project was initiated in 2014 to establish a Shetland Investment portfolio, fund and lending service for the Economic Development Service (EDS). The first phase of this included the transfer of Shetland Development Trust (SDT) assets and undertakings to the Council. A Business Case was then prepared by the Project Board to identify the best use of the assets and evidence the benefit of a Council lending service. A decision was subsequently taken by Development Committee on 11 April 2016 [Min Ref:15/16], ratified at Policy and Resources Committee on 18 April 2016 [Min Ref:24/16], for a provision of £15m to be made available for local lending.

- 3.2 The Lending Service forms an important part of the Economic Development Service and is one of a number of interventions used to encourage sustainable growth, employment opportunities and inward investment. The service operates not only to provide finance but to work with applicants and provide advice on how businesses become 'investment ready' and help identify the right funding package to achieve plans.
- 3.3 The Project Board has continued to oversee the review of policies and procedures for lending activity and the following was identified as priority areas to define:
- Lending policy
 - Interest rate calculation guidelines
 - Financial procedures/systems and responsibilities
 - Decision making procedures

3.4 Lending Policy

Appendix 1 to this report is the Lending Policy and Guidelines document which is proposed for approval. This covers who the Council will lend to, types of funding, eligibility criteria, target sectors, lending terms and Council position in the market for business investment. Importantly the document lays out how the lending service will be accessed by the business community. The decision making section reflects the current system in place and will be updated if any future decision to delegate authority is taken.

Further work is still required to review and update the Council's Deed of Conditions for lending. This is the document that details the standard conditions which all borrowers from the Council must agree to. The revised Deed of Conditions will be presented to a future meeting.

3.5 Interest Rate Calculation Guidelines

Appendix 2 to this report is the Interest Rate Calculation Guidelines document which is proposed for approval. This is a document intended for internal use within the Council to calculate interest rates to be applied to each investment. The key points are that the guidelines are in line with the Council's MTFP and Investment Strategy; take account of investment risk; and are compliant with State aid regulation.

3.6 Financial Procedures/Systems and Responsibilities

Economic Development and Finance Service staff have been working jointly to prepare detailed procedures and responsibilities for the management of the investment portfolio.

Work will continue over the next few months to complete these operational matters.

3.7 Decision Making Procedures

Currently decisions on new investments are made by the Development Committee. There is one loan scheme in place where decision making is delegated to the Executive Manager – Economic Development. This scheme assists local fishing businesses to purchase whitefish quota and fishing licences.

The Project Board have discussed the potential for further delegated authority to be granted to allow decisions to be taken on new and existing investments. The Project Board consider this would lead to more efficient decision making and thus improve the economic development service offered by the Council.

A proposed framework for decision making will be prepared for presentation at a future meeting. This will include draft terms of reference for delegating authority to Executive Manager – Economic Development to make decisions on new and existing investments, in line with agreed lending policies. Part of the decision making process would be to establish a Local Investment Board consisting of Council Officials to assess all proposals within an agreed remit.

- 3.8 The remaining procedures and systems will be reviewed and finalised in the coming months. A promotion of the lending service will follow Committee final approval, to ensure that the business community is aware of the lending criteria and how to apply.

4.0 Implications

Strategic

- 4.1 Delivery on Corporate Priorities – Shetland Islands Council's Our Plan 2016 - 2020 recognises that Shetland's future prosperity is dependent on maintaining a sustainable economy. The lending service assists in the delivery of the following Economy & Housing objectives detailed in the Corporate Plan:

- "The long term community plan aim is for Shetland to have good places to live as well as sustainable economic growth with good employment opportunities, and for our residents to have the skills they need to benefit from those opportunities."
- "We have an economy that promotes enterprise and is based on making full use of local resources, skills and a desire to investigate new commercial ideas."
- "We will be investing development funds wisely to produce the maximum benefit for Shetland's economy."

- 4.2 Community/Stakeholder Issues – None.

- 4.3 Policy and/or Delegated Authority – This report has been prepared with regard to the pledges contained in the Council's Economic Development Policy Statement 2013-2017. The Policy Statement was approved by the Development Committee on 14 January 2015 [Min Ref 01/15].

The Lending Service supports the following objective: Section 2.1
“Encourage sustainable growth in the local economy through support for business development and social enterprises”.

The Development Committee has functional responsibility for economic development matters, including decisions on business investments.

The Policy and Resources Committee must however make a decision as this Committee has functional responsibility for Council processes and procedures and delegated authority for the co-ordination, control and proper management of the financial affairs of the Council.

- 4.4 Risk Management – Risks associated with lending to local businesses are mitigated through having robust lending policies and systems in place. Due diligence is carried out on all new investments and each investment is actively monitored and managed to completion.

- 4.5 Equalities, Health and Human Rights – None.

- 4.6 Environmental – None.

Resources

- 4.7 Financial – There is provision of £15m for local lending in the MTFP. As at 1 September 2016 the total value of loans and commitments yet to be released was £6.44m with the balance of £8.56 remaining invested in managed funds.

The cost of managing the Lending Service will be met from existing budgets.

- 4.8 Legal – None.

- 4.9 Human Resources – None.

- 4.10 Assets and Property – None.

5.0 Conclusions

- 5.1 This report seeks approval for the Lending Policy & Guidelines which will become the key document for guiding both staff and applicants. The Interest Rate Calculation Guidelines will also be used as a guide for staff and ensure that interest rates applied to investments are compliant with Council policy and State aid regulation.

For further information please contact:

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Report finalised: 28 September 2016

Appendices:

Appendix 1 – Draft Lending Policy & Guidelines

Appendix 2 – Draft Interest Rate Calculation Guidelines

Background documents:

- Full Business Case for the Use of Assets Transferred from Shetland Development Trust

Shetland Islands Council Economic Development Service



Lending Service Policy and Guidelines

Contact:

Shetland Islands Council
Economic Development Service
3 North Ness Business Park
Lerwick
Shetland ZE1 0LZ

tel: 01595 744 940

e-mail: development@shetland.gov.uk

web: www.shetland.gov.uk

Business Gateway

tel: 01595 745 945

e-mail: businessgateway@shetland.gov.uk

web: www.bgateway.com

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Loans from Shetland Islands Council

1.0 Introduction

Shetland Islands Council (the Council) can provide commercial finance to new and growing businesses in the Shetland Islands. The purpose of this Council service is to ensure that good, commercially viable proposals do not fail from a lack of access to finance.

The Council aims to encourage and support the creation, development and growth of businesses within the local authority area. Loan applications will be assessed against key eligibility criteria and proposals must demonstrate that they will contribute to, and strengthen, the local economy in terms of jobs, growth and other benefits.

2.0 Who can Apply?

- 2.1 Sole traders, partnerships, limited liability partnerships and limited companies can apply for loan finance to start up or grow businesses in the Shetland Islands.
- 2.2 The Council can invest in micro, small and medium sized businesses (up to 250 employees and turnover not exceeding €50m).
- 2.3 UK Financial Services Regulation places restrictions on lending £25,000 or less to sole traders and partnerships/limited liability partnerships with 3 or fewer members. The Council is therefore unable to provide direct loans to sole traders/small partnerships of £25,000 or less but can assist with signposting to other loan providers who offer approved lending services.
- 2.4 Whilst there is no lower application limit for larger partnerships or limited companies, a loan below £25,000 may not be a cost effective way of financing a project.

3.0 Types of Funding Available

- 3.1 Secured loans are the main form in which assistance is provided although equity and hire purchase finance can also be considered where there are specific advantages to these forms of finance. It is advised that applicants discuss the type of finance sought with Economic Development Service (EDS) staff prior to submitting an application.
- 3.2 The Council provides gap funding or co-investment with Banks and other finance providers rather than being the primary lender to businesses. All applicants are required to maximise other private and public sector forms of funding before approaching the Council. EDS can assist applicants to identify other funding sources.
- 3.3 Loans are repayable over a fixed term and interest and capital repayments collected by Direct Debit each month.

- 3.4 Legal fees are recharged to the borrower at cost. No arrangement fees are charged and no early repayment fees apply to Council loans.

4.0 Eligibility Criteria

- 4.1 The Economic Development Service will prioritise the development of projects within certain key areas of economic activity, and will require that projects seeking assistance will realistically achieve a number of outcomes relating to improving the local economy.
- 4.2 Applications must comply with policy objectives of the Corporate Plan and Economic Development Policy Statement 2013-17, which specifies target areas for assistance and key outcomes for all economic development activity. The Policy Statement can be viewed at:
http://www.shetland.gov.uk/economic_development/documents/EconomicDevelopmentPolicyStatement201317FINAL.pdf

4.3 Priority Outcomes

Projects applying for loan assistance will be expected to demonstrate that at least one of the following primary outcomes can realistically be achieved:

- Introduce new business activity
- Improved product quality
- New market development
- Improved productivity
- Improved service delivery
- Introduce new or improved manufacturing/production processes
- Import substitution

Projects which cannot demonstrate that they will achieve one or more of the above primary outcomes will not be considered for assistance.

4.4 Secondary Outcomes

Applications must also demonstrate which of the following secondary outcomes will be achieved by their project:

- New job creation
- Encourage inward investment from the private sector
- Encourage receipt of external grant funding
- Improve access to employment and economic opportunities in rural areas
- Improve local control of resources
- Improve the local skills base
- Improve local employment conditions
- Increase local wage rates
- Infrastructure and/or service development in remote and rural areas

(Secondary Outcomes continued)

- Promote more sustainable use of resources
- Reduce costs and/or improve efficiency
- Result in environmental improvements

Projects which cannot demonstrate achievement of secondary outcomes may still be considered for assistance, but will not be regarded as a priority for funding.

- 4.5 Loans to acquire established businesses will only be considered if combined with plans to develop the business. Assistance towards a management or employee buy-out will require a robust succession plan.
- 4.6 Projects which will lead to the duplication of existing local service provision will only be considered for assistance if it can be demonstrated that there is market demand for additional supply.

4.7 Target Economic Areas

The following is a list of the target areas of economic activity which the Economic Development Service regard as priorities for development, where there is a particular focus on innovation, diversity and growth:

- Creative Industries
- Food and Drink (inc. fisheries and agriculture)
- Manufacturing
- New Technology
- Renewable Energy
- Tourism

Projects generating activity within the above areas will be considered priorities for assistance. Projects outside of these areas may also be considered for support if strong links to the above primary and secondary outcomes can be demonstrated.

4.8 Ineligible Projects

The following paragraphs detail the areas where projects will be considered ineligible for loan assistance. Decisions on whether projects are deemed ineligible will be made by the Executive Manager – Economic Development.

4.8.1 Projects which are not financially viable will not be eligible.

4.8.2 Funding will not be available for specific cost items where this will have the potential to distort local market activity, such as the purchase of property on the open market.

- 4.8.3 Debt repayment, i.e. direct replacement of existing loan facilities, will not be eligible.
- 4.8.4 Businesses which are deemed to be failing will not be eligible for assistance. Projects which have no intrinsic value other than as rescue packages are also ineligible.

5.0 Lending Terms

- 5.1 All loans will have appropriate terms and conditions applied. The loan offer will detail conditions to be met prior to any loan release and those conditions which apply for the period of the loan.
- 5.2 Applicants for commercial funding will be required to provide security for lending.
- 5.3 The interest rate applied to borrowed finance will reflect the risk associated with investing in the business. Once an interest rate has been set it is fixed for the loan period although longer term loans may incorporate an interest rate review after a set time e.g. 5 years. Rates will be no lower than bank borrowing rates and must also meet a minimum rate set annually by the Council (5.2% for the financial year 2016-2017). The Council can consider applications for short interest only periods but it is stressed that the project must demonstrate clear need for such conditions if they are to be applied.
- 5.4 The loan period will be set following an assessment of the project and financial ability to repay. As a guideline loan periods beyond 10 years are unlikely to be approved.
- 5.5 Applicants are expected to fund a proportion of project costs from sources other than the Council. The Council will fund no more than 75% of capital costs within a project.

6.0 How to Apply

- 6.1 In the first instance, potential applicants should make contact with the Economic Development Service to discuss the development project and the eligibility of the project for a loan application. At this point, the EDS will identify if an applicant requires any other business support including the services offered by Business Gateway.

Business Gateway

This is a government initiative which aims to provide a range of support measures to those who wish to start up a new business or to grow an existing business. This service is supported by local and national resources and includes:

- Access to training courses
- Business planning advice from an accredited adviser
- Advice on funding opportunities
- Access to national information services

The Business Gateway is operated in Shetland by the Economic Development Service and is regarded as the first point-of-contact for all business enquiries.

- 6.2 Once the Economic Development Service is satisfied that the project will meet the eligibility criteria for a loan, the applicant will be required to submit a completed loan application form and business plan.

6.3 Application Form

- 6.3.1 The application form details all information and documentation which is required to apply. The form is available from the Economic Development Service in paper or electronic form. Contact details are listed on the front page and a direct link to the form is below:

http://www.shetland.gov.uk/economic_development/documents/LoanandCommercialFinanceApplicationForm2013-2017.pdf

- 6.3.2 Within the form applicants are requested to detail the measurable and non-measurable benefits/impacts the development will bring to the local economy.

- 6.3.3 The application form includes a declaration and undertaking which must be printed and signed before the form is returned. The main body of the application can be emailed or submitted in paper form.

6.4 Business Plan

6.4.1 Support with business planning can be provided through the Business Gateway Service, if required. Contact details for Business Gateway are included on the front page.

6.4.2 A business plan should include the following information:

- Business background
- Overview of the business sector
- Company structure
- Management structure
- Description of the development project
- Benefits of the project to the business
- Details of current and proposed employment
- Analysis of the market in which the business operates
- Details of current/potential competition
- Project costs – include both capital and revenue expenditure
- Funding sources identified – state whether or not applications have been submitted, any feedback received and/or any approvals
- Justification for seeking funding from the Council
- Impact on the business if the project does not proceed
- Timescales

6.4.3 The business plan must be supported by financial projections for a minimum of 3 years. This will include profit & loss accounts, cashflows and balance sheet forecasts. The cashflow requires to be prepared on a monthly basis and projections should be accompanied by detailed assumptions in relation to statements made in the application.

6.4.4 Note that existing businesses will be asked to supply year end accounts for the previous 3 years. Management accounts may also be requested along with other information required in the assessment process, for example, asset lists, details of key contracts, licences held.

7.0 Decision Making Process *[This section will be updated following any future decisions to delegate authority for loan approval]*

7.1 On receipt of an application, EDS staff will look carefully at your application and provide advice and feedback on the potential success of an application before progressing further. Investment proposals which meet the Council's lending policies will be presented to the Council's Development Committee for a decision.

- 7.2 Once an application has been received an indication of the timescale for a decision will be given by EDS staff. Development Committee meetings are held approximately every 6-8 weeks and on average it takes 2 months from the time that all required information is submitted to receive a decision. EDS staff will contact applicants immediately following the Development Committee meeting to discuss the outcome.

8.0 Monitoring of Investments

- 8.1 EDS staff monitor loans to ensure that the loan beneficiaries meet the requirements and conditions of the Council. As part of the monitoring of all investments EDS staff will carry out annual business reviews on each borrower. Part of this process will involve following up on the achievement of estimated benefits to the local economy as detailed at the time of application.
- 8.2 Finance Staff monitor all interest and capital repayments as well as the issue of new capital using the financial management system.

9.0 Applicable Legislation

- 9.1 Applicants must be aware that the following UK and Scottish legislation applies to any and all information provided to the EDS within the application form or accompanying documents:

9.1.1 Data Protection 1998

The Shetland Islands Council is registered under the Data Protection Act 1998. Any personal information provided by you in this form will be used solely by the Council in connection with your application for loan assistance.

9.1.2 Local Government (Scotland) Act 1973

It is normal practice for reports on applications for loan assistance to be considered in private due to the exempt content including personal and financial detail. However, some information provided in the application form and in the supporting submissions may be made public in reports to the Council or any of its relevant Committees if the Council Members decide, without your approval. The Council may also make details of any approval public through local press releases.

9.1.3 Freedom of Information (Scotland) Act 2002

Any information you provide with your application may be provided to the public under the Act. If there is any information contained in the application form or supporting documentation which you do not wish to be publicised, you must disclose this at the time of application. Any requests for disclosure of such information may be discussed with you, however, it cannot be guaranteed that your information will be kept confidential.

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Shetland Islands Council

Lending Service

Interest Rate Calculation Guidelines

1.0 Introduction

- 1.1 The Council provides a commercial lending service to new and growing businesses in the Shetland Islands. Secured loans are the main form in which assistance is provided although equity and hire purchase finance can also be considered where there are specific advantages to these forms of finance.
- 1.2 The following guidelines have been prepared to assist staff to calculate interest rates for investments. These guidelines are in line with the Medium Term Financial Plan (MTFP) and Investment Strategy of the Council which states that for each investment the Director of Development Services and the Executive Manager – Finance must agree that:
 - loans will generate the Council a rate of return at least equal to fund manager average returns (net of fees) in which the Council currently invests
 - Due diligence work has been undertaken to ensure that any loan granted is at an acceptable risk level to the Council
 - Economic Development Service will ensure compliance with State Aid Regulations
- 1.3 Any approved changes to the MTFP or Investment Strategy concerning local lending will take precedence to these guidelines and will be incorporated into this document in due course.

2.0 General Principles

- 2.1 By following these guidelines interest rates will be calculated in line with the European Commission State aid guidelines and will also reflect the risk associated with investing in the business.
- 2.2 These guidelines are to be followed once initial assessment has been completed to establish that a loan application meets the eligibility criteria for Council lending. The interest rate proposed for each investment will be confirmed on completion of the due diligence.
- 2.3 If during assessment, an applicant business is deemed to be in difficulty, or failing, the business will not be eligible to proceed with a loan application.

- 2.4 The guidelines refer to loans but also apply to hire purchase facilities and can be used as a guide for considering equity dividend conditions.
- 2.5 Once an interest rate has been set it is fixed for the loan period although longer term loans may incorporate an interest rate review after a set time e.g. 5 years.
- 2.6 The Council can consider applications for short interest only periods but it is stressed that the project must demonstrate clear need for such conditions if they are to be applied.
- 2.7 Sub commercial or soft loans i.e. loans with low interest rates or other terms not commercially available are not offered by the Council to businesses.
- 2.8 It is imperative that each loan investment has documented evidence showing the process followed to calculate interest rates and other loan terms. The evidence must be robust enough to justify the Council's position should there be a challenge by the Commission that the funding is not on commercial terms.

3.0 Calculation Process

The process for the calculation of interest rates can be broken down into a series of steps.

3.1 Step 1 - Identify the current average fund managers returns (net of fees)

- 3.1.1 This rate is detailed in the MTFP and Investment Strategy and for 2016/17 this rate is 5.2%.
- 3.1.2 This is the **minimum** interest rate which can be proposed for approval regardless of the outcome of the next steps.

3.2 Step 2 – Apply State aid guidelines - the Market Economy Operator principle

- 3.2.1 If the Council is providing a loan under terms (including interest rate) which would be acceptable to a private investor who is motivated by return, and not policy objectives, then the Council is not providing a State aid. This is referred to the Market Economy Operator (MEO) principle.
- 3.2.2 There are several approaches which can be taken to evidence the MEO principle, depending on the circumstances of the lending proposal:
 - a) Pari Passu: The most robust way of demonstrating that a Council investment is on MEO terms is by ensuring that the terms of the loan, including interest rate, are matching to another commercial entity such as a Bank. The risk should also be at the same level for both lenders.

Council lending must be **equal to** or **higher** than the rate offered by the other lender.

- b) Benchmarking: To avoid state aid in a Council loan agreement a comparable market rate can be established.

To test the market, research must be undertaken to establish if there are comparable loans for similar debt transactions available on the private finance market. An independent report can be commissioned to establish if the terms are on a par with a private investor, although it is unlikely that the Council would wish to do this.

Evidence may be available from the applicant business by submission of other recent loan agreements entered into by the business.

If a comparable market transaction can be identified then this is the **minimum** rate at which the Council can lend without providing a state aid.

In the situation where other loans have recently been or are about to be made to the business, but with a stronger security position, the Council interest rate will need to be **higher** to reflect the lower secured position.

- c) Proxy for the Market Rate: Recognising that comparable market transactions are not always available, the European Commission provides another methodology for calculating a benchmark for the market rate. This is referred to the 'Reference Rate' and involves establishing a base rate and calculating a margin to be added. In the absence of comparable market transactions the calculated rate will be the **minimum** interest rate to be applied.

3.2.3 Of the three processes identified above for evidencing the MEO principle, it is most likely that methods b) and c), or a combination of both, will be the most widely used. This is because the Council generally lends as gap funder where another primary lender is involved and so evidence relating to method b) is usually available. Also, the Council provides relatively low levels of funding (in Commission terms) and lend to small and medium-sized enterprises (SMEs) rather than large corporations. Method c) is designed to apply to that category of lending. If however comparable market rates do exist, and they are higher than the reference rate calculation, then the higher rate should be considered the **minimum**.

3.2.4 The additional benefit from calculating the reference rate is that the method is based on risk assessment and takes into account assessment of the creditworthiness and collateral available for security. The interest rate proposed for a Council loan therefore takes lending risk into account.

3.3 Reference Rate Calculation - Method c) for Market Rate Proxy

3.3.1 Base Reference Rate

The base rate can be found on the Commission website:

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

The rate is calculated using 1-year inter bank offered rate (IBOR). This rate can change monthly and must be checked immediately prior to loan approval.

Example: The current base rate is 0.84% (as of 1 October 2016).

3.3.2 Additional Margin Calculation

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

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

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

All interest rate margins proposed will be between 0.6% and 10% above the base rate.

Example: The minimum interest rate which can be applied for a company with normal collateral and a satisfactory rating would therefore be 0.84% plus 220 basis points (2.2%) equalling 3.04%.

3.3.3 Collateral

Normal collateral is what financial institutions, such as Banks, would require as security for a loan. As a basic guide, security ranking equal to a Bank will also merit a 'normal' ranking and a less favourable ranking position will be likely to have 'low' or 'normal/low ranking'. If assessment indicates more than adequate security is available a 'high' or 'normal/high' rating can be applied.

Commission regulation indicates that the level of collateral can be measured as the Loss Given Default (LGD). This is the expected loss (in percentage) of the debt outstanding, taking into account recoverable

amounts from collateral and the bankruptcy assets. High collateralisation implies a LGD below or equal to 30%, Normal collateralisation an LGD between 31% and 59% and low collateralisation an LGD above or equal to 60%. In practical terms a loan of £100,000 with an expected recovery of £80,000 would have a 'high' collateral rating of 20% LGD. This calculation may however result in higher ratings than a private investor would offer and so results should be used with caution.

The following factors can be used to assess collateralisation based on the asset value under an insolvency situation (being the worst case outcome for a business):

- The type of assets and future saleability.
- The type of security e.g. floating charge, standard security, marine mortgage, personal guarantee etc.
- The value of assets on which security is held should be compared against the borrowed amount. A prudent view of asset value should be taken. It may be necessary to seek specialist advice on asset values if this information is not accessible elsewhere.
- Depreciation of the assets over the period of the loan.
- Ranking arrangements with other creditors.
- Any contractual arrangement the borrower has entered into or legal reason which would prevent the sale of assets. i.e. animal welfare legislation, ownership dispute.
- Future national and local policy which may influence the value of assets.
- Cost of realising the debt i.e. cost of administration/receivership, payments to preferential creditors, prescribed part etc. The cost of realising debt should be deducted from the asset value.

Where a Council loan is subordinated to other higher ranked debt, i.e. when repayment would be prioritised to another lender over the Council in an insolvency situation, then particular care should be given to ensuring that the Council loan has adequate security to justify the collateralisation rating. If in doubt the collateralisation rating should be reduced accordingly.

3.3.4 Credit Rating

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

The following risk assessment factors can be used for evaluation:

Financial Analysis:

- To facilitate analysis of risk, 3 years annual accounts and 3 years forward projections along with a business plan will be analysed.
- For "new start" entities with no historical accounting information, 3 years projections will be required.

- For all applications, details of the assumptions underpinning the financial projections are required.
- Ability to meet repayments of loan capital and interest will be checked.
- Proof of ability to trade within the borrowing levels in place or proposed.

Non-Financial Analysis:

- Assessment of the market the business is trading in.
- Assessment of competitors/benchmarking.
- Review of key contracts.
- Technical aspects will be considered (i.e. factory capacities, access to appropriate facilities to carry out business, valid consents, compliance with legislation).
- Liabilities to other secured creditors will be considered.
- Management abilities and track record.
- Appropriate insurances in place.
- Support from shareholders and external funders.
- Assessment of political and legal factors which may affect the ability of the company to trade.
- Identification of subsidiary or parent companies and understanding their relationships to the applicant business.
- When the applicant is an individual or partner in a business, Experian checks can be made to assess creditworthiness.

The table in section 3.3.2 can now be used as a matrix to calculate the additional margin, taking into account the following:

- New start businesses will automatically require at least 400 basis points to be applied to the base rate.
- If an applicant business is owned by another organisation the margin to be applied must never be lower than that applying to the parent company.

3.3.5 The base rate plus the additional margin can then be used to calculate the proxy for the market rate. This rate is the **minimum** rate which can be applied.

3.4 Step 3 – Review the outcome of the previous steps and ensure that the rate proposed is not below the minimum level in each case. Interest rate proposed for each loan should be rounded up to the nearest 0.5%.

4. Interest Rates in the Case of Default

In addition to the standard interest rate, each investment carries a default interest rate applied to payments not received on their due date. The default rate is calculated at 4% above the standard interest rate and will be stated in each loan agreement. This is in line with UK Banking practice.