Rural and Agricultural Development – Maximising the Potential in the Islands of Orkney, Shetland & Outer Hebrides

SWOT, Conclusions & Recommendations

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12 SWOT

460. The interaction of current circumstances and proposed policy changes can be explored using Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis. Drawing on findings from stakeholder interactions, data analysis and relevant literature, the Table 63 summarises a collective SWOT across all three island groupings (for details see Annex 13 Island-specific & natural capital market SWOTs). Each point in the table is discussed briefly below, including identifying links between different quadrants of the SWOT table.

12.1.1 Strengths

461. **Inter-generational tacit knowledge (so understand local context and nuances):** Family farming and crofting ensures continuity of site-specific knowledge i.e. idiosyncrasies of particular parcels of land, variability in growing conditions, location of acute flood/drought risks etc. Such fine-grain detail is important for agricultural and environmental management. Links to opportunities for knowledge exchange, but also to threats of under-resourcing of advisory services.

462. **High level of social capital (underpinning collaborative and community actions):** Communities have strong social bonding (but also often, via time spent working elsewhere, bridging) capital which can support cooperative and collaborative actions, which are important for agriculture (e.g. common grazing, shared bulls) but will also be relevant for landscape scale environmental management (e.g. peatland restoration). Links to opportunities for environmental rewards but may be undermined by lack of generational renewal weakness.

463. **Small scale production offers economies of scope (pluriactive businesses and households):** Small-scale land management alone typically generates insufficient income to sustain households but pluriactivty spreads income risks and encourages broader perspective on rural development. Links to opportunities for retargeting support (not necessarily just to agriculture per se), but also to weakness and threats of disproportionate overhead compliance costs.

464. **Brand recognition for some products (e.g. cheese, black pudding, wool):** Some locally processed products have added value, and these could perhaps be expanded/extended. Links to market opportunities but also threats around thin supply-chains and transport. Expansion of some brands (e.g. cheese) might only be possible if production of other products (e.g. beef) declines to free up resources (e.g. land, labour).

Table 63 SWOT analysis of island agriculture and future policy interactions

Strengths	Weaknesses
– Inter-generational tacit knowledge (so understand local context & nuances) – High level of social capital (underpinning collaborative & community actions) – Small scale production offers economies of scope (pluriactive businesses & households) – Brand recognition for some products (e.g. cheese, black pudding, wool) – High number of environmental designations (so national recognition of environmental value) – LA recognition of importance of local culture & agricultural economy (so supportive of sector) – National policy recognition of islands' unique status (so account must be taken)	– Low local awareness of policy developments (so not preparing for change) – Skills gaps (so lacking in understanding & confidence to prepare for change) – Low profitability hinders investment (so low productivity& low capacity to change) – Low rates of generational renewal (so longer-term management continuity uncertain) – Thin local input markets (so supply constraints impose logistical issues & cost – esp. transport) – Thin local output markets (so reliance on access to mainland markets – esp. transport) – Small-scale production has higher fixed overheads (so disproportionately affected by some costs) – Fragility of wider supply-chain – Poor connectivity continues to act as a barrier to sustainable development (freight capacity & internet connectivity are both critically important & to a large extent out with the control of LA) – Declining use of common grazings (limiting draw-down of available public funding for 'active crofting' with many common grazings unregulated): – Long term decline in occupiers engaged in agricultural activity (so reduced policy rationale) – High levels of degraded peatlands with uncertain restoration route map (high LULUCF emissions)
Opportunities	**Threats**
– Knowledge exchange through facilitated peer networks (to combine local & outside skills) – Redesign of LFASS-type support to account for peripherality costs (e.g. transport cost & reliability) – Redesign of payment Regions to better align with environmental policy objectives (e.g. merge R2 & 3) – Increase funding for retained environmental features /designations (i.e. reward existing attainment, including of peatland restoration) – Design simplified arrangements for small producers (e.g. small recipients' scheme / redistributive support on first 'x' hectares) – Strengthen key elements of thin supply-chains (e.g. support for vets, processors) – Explore product & environmental market opportunities (e.g. collective provenance marketing, carbon & biodiversity, eco-& agri-tourism) – Fully support the positives of community land management inherent in Common Grazings (publicly funded experts to facilitate & support common grazing committees including undertaking biodiversity audits & peatland assessments) – Enhance CLLD approach (through the Coastal Communities Fund and other appropriate public / community benefit schemes)	– National policy (& supply-chain) prescriptions ill-matched to local context (e.g. habitat types, common grazings) – Policy (& market) funding doesn't cover compliance costs (so low enrolment & land abandonment) – Policy (& market) funding does not adequately reflect increased costs of operating in island communities – Lack of joined up thinking in policy development has a disproportionate impact on fragile rural communities – Policy support replaced by regulatory obligations (so land abandonment or ownership change) – Transport costs increase or service reduced (so input & output market access worsens) – Thin supply-chains at risk of cascading loss of critical mass (e.g. no vet, lack of advisors) – Adherence to top-down environmental targets ignores local vs. national balance (e.g. displacement) – Lack of nuanced thinking in policy& in resulting public discourse on how to achieve environmental targets creating consumer misconceptions & driving change that is not necessarily positive (e.g. Carbon Auditing will lead to more intensive efficiency-based systems unless there is a more balanced approach to its limitations) – Climate change exacerbates production constraints (i.e. adaptation costs tip balance) – Negative impact on rare species – Lack of market regulation to ensure large scale retailers are held to account creates uneven playing field

465. **High number of environmental designations (so national recognition of environmental value):** Existing environmental designations imply delivery of public goods value to society, yet are currently under-rewarded by policy or market funding. Links to opportunities for market development and re-targeting of policy support, but also to threats around compliance costs plus climate change adaptation.

466. **Local Authority (LA) recognition of importance of local cultural and agricultural economy (so supportive of sector):** LAs are keen to retain active land management for economic and community cohesion reasons, so are supportive of farming and crofting. Links to opportunities to retarget policy support but also to threats around funding (budget) levels.

467. **National policy recognition of islands' unique status (so account must be taken):** Islands (Scotland) Act 2018 places explicit obligations on Scottish Government to monitor and mitigate adverse impacts on island economies and communities. Links to opportunities to redesign policy support, but also to threats around overall funding (budget) levels.

12.1.2 Weaknesses

468. **Low local awareness of policy developments (so not preparing for change):** Lack of engagement (due both to poor central comms but also competing demands on producers' time) means that awareness of policy drivers and proposals is poor. Links to opportunities for knowledge exchange but also to threats around ill-matched prescriptions because local perspectives are not being offered/heard. The Rural Support Plan should have provided the rationale and outcomes (and therefore clarity) for future support and the basis for the Agriculture and Rural Communities (Scotland) Bill, but that holistic clarity is unlikely in the short term.

469. **Skills gaps (so lacking in understanding and confidence to prepare for change):** Emerging policy and market expectations (plus climate adaptation) demand new skills which are often currently lacking. Links to opportunities for knowledge exchange but also to threats around lack of access to advisory support.

470. **Low profitability hinders investment (so low productivity and low capacity to change):** Emerging policy and market expectations require investment in natural and financial capital (as well as human and social capital), but commercial margins are too low to cover this, particularly given additional production costs faced on islands. Links to opportunities for redesign of policy support and new markets, but also to threats around funding and additional adaptation to climate change.

471. **Low rates of generational renewal (so longer-term management continuity uncertain):** Ageing demographics may mean that continuity of management is

lost, or worse that land is abandoned. Links to opportunities to redesign support but also to threats around funding (budget) levels.

472. **Thin local input markets (so supply constraints impose logistical issues and cost – esp. transport):** Island producer demand is too small to sustain thick markets/supply-chains with large choice of upstream and downstream local firms. Consequently, availability of local services is often restricted, affecting timing of access as well as cost. Moreover, purchased inputs incur additional transport and transaction costs. Links to opportunities to strengthen selected sections of supply-chains but also threats around cascading critical mass losses.

473. **Thin local output markets (so reliance on access to 'export' markets):** Island consumer demand is too small to sustain thick output markets. Consequently, production at scale is reliant on access to off-island markets. As with purchased inputs, this incurs additional transport and transaction costs. Links to opportunities to strengthen selected sections of supply-chains but also threats around cascading critical mass losses and risks of further increases in transport costs.

474. **Small-scale production has higher fixed overheads (so disproportionately affected by some costs):** Some proposed policy measures, notably plans and CPD, have a high fixed cost element that does not vary with business size. As such, they impact disproportionately on smaller producers. Links to opportunities for a small recipients' scheme but also to threats around funding not covering compliance costs.

475. Declining use of common grazings (limiting draw-down of available public funding for 'active crofting' with many common grazings unregulated): Despite Crofting Commission governance and regulations regarding 'neglect', 'cultivate' and 'maintain' there is declining use of crofts for agricultural activity by owners/tenants and specifically under utilisation of common grazings by allocated shareholders. Limits amounts of national funding being drawn into communities that could underpin jobs and the wider economy. Links to opportunities to improve collective governance.

476. **Long term decline in occupiers engaged in agricultural activity (so reduced policy rationale):** the long-term decline in the number of occupiers engaged in agricultural activity and reductions in output reduce the political pressure and policy imperative to continue to support islands at historic rates, despite documented support needs.

477. **High levels of degraded peatlands with uncertain restoration route map (high LULUCF emissions):** High levels of greenhouse gas emissions from degraded peatlands in some islands are problematic to restore particularly on common

grazings where there are legal uncertainties regarding restoration and carbon rights, and public funding appears inadequate for the scale of restoration required. Policy options to support long-term appropriate livestock grazing on both unrestored and restored peatlands are missing, leading to a lack of engagement from those who would have to relinquish property (grazing) rights. Links to opportunities for improved collective governance and targeted funding.

12.1.3 Opportunities

478. **Knowledge exchange through facilitated peer networks (to combine local and outside skills):** Local tacit knowledge could and should be harnessed to tailor management prescriptions (and adaptive capacity) to local circumstances, but needs to be combined with external knowledge on less familiar, emerging policy and market demands. The role of such knowledge, use of trusted local networks, and key stakeholders should be better defined in future AKIS for Scotland. Countered by threats relating to availability and affordability of external facilitators and advisors.

479. **Redesign of LFASS-type support to account for peripherality costs (e.g. transport cost & reliability):** LFASS is long overdue for replacement and more explicit recognition of transport costs in terms of cash, time and reliability could and should be accommodated. Links to threats relating to funding (budget) availability and yet further increases in transport costs.

480. **Redesign of payment Regions to better align with environmental policy objectives (e.g. merge R2 & R3):** Existing BPS payment Regions map poorly onto differences in proposed policy prescriptions. Aligning prescriptions and Regions better according to potential to deliver particular ecosystem services would be an improvement. Countered by threats for ill-matched prescriptions.

481. **Increase funding for retained environmental features/designations (i.e. reward existing attainment):** Islands encompass multiple environmental designations and low intensity management systems that already deliver desired ecosystem services, yet have not been rewarded for doing so. Policy design and funding could be adjusted to correct this. Countered by threat of ill-matched policy prescriptions, inadequate funding and possible tightening of regulatory reference point (i.e. minimum obligations subject to penalties for failure rather than reward for delivery).

482. Design simplified arrangements for small producers (e.g. small recipients' scheme or 'redistributive support on firs 'x' hectares): Smaller producers incur disproportionately high fixed compliance costs for some proposed policy measures. A simplified scheme would avoid this (and also save government administration costs) and redistributive support could counter higher average

costs of production / compliance for small units. Countered by threat of ill-matched policy prescriptions, inadequate funding and possible tightening of regulatory reference point.

483. **Strengthen key elements of thin supply-chains (e.g. support for vets, processors):** Scarcity of key local supply-chain elements, such as vets and processors, could be countered by support. For instance, either indirectly through funding producers' obligations to use particular services (e.g. vets) or directly through supporting individual firms. Highlights threat of cascading critical mass loss. State Aid rules may or may not apply, but an alternative is encouragement for vertical and horizontal integration through Producer Organisations (links to collaborative strength).

484. **Explore product and environmental market opportunities (e.g. branding, carbon & biodiversity):** Market demands are evolving, both in terms of production process characteristics for traditional commodity outputs but also for previously untraded services such as carbon sequestration (e.g. Scope 3 reporting) and biodiversity (markets for which are also less affected by transport costs). Hence there are opportunities to expand commodity production by demonstrating its wider credentials (e.g. low carbon intensity) but also for exploiting new income streams from more novel outputs. However, opportunities are hampered by skills gaps and investment weaknesses plus threatened by thin supply-chains and insufficient market funding for compliance costs.

485. Fully support the positives of community land management inherent in Common Grazings (publicly funded experts to facilitate & support common grazing committees including undertaking biodiversity audits & peatland assessments): Dovetail policy signals from Crofting Commission with those provided by support systems: Better align definitions and requirements for land management. Streamline administrative processes (notably with respect to Crofting Commission). Meet government target of more Common Grazings being in office by deploying positive nudges and other incentives to encourage more active collective governance, and support environmental auditing of common grazings given their national importance as carbon stores and habitats.

486. Enhance CLLD approach (through the Coastal Communities Fund and other appropriate public / community benefit schemes): Arguments for an enhanced role for LAGs (with greater active farming / crofting representation) in distributing Scottish Government and other funding should be strengthened. The role of and funding for CLLD needs to be strengthened in the Agriculture and Rural Communities Bill, and there may be an opportunity for LAGs to help develop 'Regional Priorities' for Tier 2 and Tier 3 support working with, or through embedded within any future Regional Land Use Partnerships (RLUPs).

12.1.4 Threats

487. **Policy (and supply-chain) prescriptions ill-matched to local context (e.g. habitat types, commons):** Scottish agriculture and land use is characterized by significant heterogeneity, which affects the potential of any given site to deliver particular ecosystem services. Consequently, standardised policy prescriptions will be ill-matched to many sites – leading to under-performance and/or excessive costs. Links to opportunities for policy redesign.

488. **Policy (and market) funding doesn't cover compliance costs (so low enrolment & land abandonment):** Delivery of ecosystem services through land management incurs real resource costs (including risk bearing). If costs are not covered by either market and/or policy funding, service delivery will less than socially desirable. Links to opportunities for policy redesign.

489. **Policy support replaced by regulatory obligations (so land abandonment or ownership change):** Budget constraints and lobbying from other interest groups may push policy towards using sticks rather than carrots, obliging producers to comply without additional funding. Given low profitability, this is likely to lead to land abandonment or wholesale ownership changes (with implications for social cohesion). Countered by LA and Islands Act commitments to islands' unique status.

490. **Transport costs increase or service reduced (so input and output market access worsens):** Transport costs depend partly upon market (notably fuel) costs, but also upon continued policy support (and therefore adequate demand). Policy support could be affected by national and local budgets, and declining / ageing populations with reduced agricultural activity could limit demand for inter-island services. Countered by LA and Islands Act commitments to islands' unique status.

491. **Thin supply-chains at risk of cascading loss of critical mass (e.g. if no vet, no consultant, or no processor):** Thin local markets/supply-chains are vulnerable to the loss of a few firms, to tipping-points beyond which a domino effect causes loss of overall critical mass. Risks include coverage of specialist agricultural consultants on the islands which are underpinned by public funding that is under pressure. Countered by opportunities to strategically support supply-chains and to LA and Islands Act commitments to islands' unique status.

492. **Adherence to top-down environmental targets ignores local vs. national balance (e.g. displacement):** Island-specific targets for (especially) greenhouse gas reductions risk imposing unnecessary costs if simply set pro-rata from national targets without considering local context and the risk of spatial

displacement of activities. Countered by opportunities to strategically support supply-chains and to LA and Islands Act commitments to islands' unique status.

493. **Climate change exacerbates production constraints (i.e. adaptation costs tip balance):** Climate change is already baked-in to a certain extent. Even if Net Zero commitments are met, global temperatures will continue to rise for several decades, leading to changing climatic conditions. This will require adaptation adjustments to land management across Scotland, including the Islands – thereby exacerbating needs for investment in natural, financial, human and social capital. Links to opportunities for policy redesign and to LA and Islands Act commitments to islands' unique status.

494. **Rural Development:** Poorly matched policies drive abandonment of common grazings and inbye crofts, undermining social cohesion and community vibrancy.

13 Conclusions and recommendations

495. As an enabling Bill, the Agriculture and Rural Communities Bill currently progressing through the Scottish Parliament offers insufficient detail to fully assess possible impacts of agricultural policy reforms in the islands – in particular the lack of any draft Rural Support Plan. However, policies to be implemented under powers sought under the Bill have been signalled by the Scottish Government.

496. A consortium led by Orkney Islands Council, commissioned SRUC to research the impacts of these proposed agricultural policy changes across the three Council areas of Orkney, Shetland and the Outer Hebrides. This reflected concern that national-level policy may not adequately recognise local contexts, with potential adverse implications for island economies, environments and communities.

497. The data and analysis presented throughout this report confirm the validity of such concerns. For example, relative to national averages, the islands' agriculture represents a larger share of economic activity (and of greenhouse gas emissions) and is closely linked with community culture, development and vibrancy. In part, this reflects the importance of crofting (particularly for the Outer Hebrides and Shetland) and a greater abundance of small producers. Equally, the island groupings account for a significant share of national environmental designations and of common grazings.

498. Yet the policy proposals appear to take no explicit account of such local conditions. For example, compliance costs for announced Tier 1 measures are likely to be disproportionately high for smaller producers[221] whilst some proposed Tier 2 measures (e.g. woodland creation) are impractical across much of the islands. Moreover, the challenges of collective management of common grazings are not considered in the policy proposals.

499. Similarly, lack of clarity regarding the future of LFASS is worrying given local constraints relating to poorer land quality and poorer connectivity. The latter applies to both physical transport but also digital access to markets and services – with the former having come into stark reality during the fuel price crisis[222]. For example, cost, frequency, capacity, and reliability of ferry services add significant cost and risk burdens to business but also CLLD activities.

500. The conclusion reached is that long term policy proposals need to take more account of island-specific circumstances. The distribution of existing support

[221] A point made more generally in recent evidence to the parliamentary Rural Affairs and Island's committee, but which requires clarification of policy interest in small producers (including Market Gardens and others below the current 3ha size threshold). For example, local food, employment and community engagement.

[222] https://commonslibrary.parliament.uk/research-briefings/sn04712/

funding already demonstrates how national-level policy has failed to halt declines in agricultural activity. Further avoidance in addressing such issues risks further excluding large numbers of land managers and large areas of land from support, with detrimental implications for local food production, environmental conditions and community vibrancy.

501. Hence it is recommended that urgent consideration be given to the treatment of smaller producers, common grazings and connectivity constraints. In addition, provisional lists of (especially) Tier 2 measures for predominantly rough grazing areas would benefit from further revision.

502. More generally, links between the Rural Support Plan, the National Islands Plan and the forthcoming Rural Delivery Plan should be carefully and clearly articulated. This implies a need for closer engagement between different arms of central and local government, including agencies such as NatureScot and the Crofting Commission.

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