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

Key Points, Acknowledgements and Contents

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This project was funded by the Scottish Government's Community Led Local Development Fund, as part of the Scottish Rural Development Programme, and was delivered by the Orkney Local Action Group in collaboration with the Shetland Local Action Group, Outer Hebrides Local Action Group, Orkney Islands Council, Shetland Islands Council, Comhairle nan Eilean Siar and Highlands and Islands Enterprise.

Key Points

- A consortium led by Orkney Islands Council but also including Orkney Local Action Group, Shetland Local Action Group, Outer Hebrides Local Action Group, Shetland Islands Council, Comhairle nan Eilean Siar, and Highlands and Islands Enterprise commissioned SRUC to research the impacts of proposed agricultural policy changes across their area(s). This reflected concern that national-level policy may not adequately recognise local contexts, with potential adverse implications for island economies, environments and communities.
- There are differences between each of the three island group' agricultural industry resulting from different land quality, culture and climate conditions - which in turn are very different to those in other parts of Scotland as a whole. Whilst there are inter-island differences, agriculture accounts for a higher share of private businesses, turnover and employment in island economies than across Scotland as a whole. Multiplier effects extend this greater relative importance along local supply-chains and into the wider rural economy. Moreover, farming and (in particular) crofting are important aspects of local culture. As a result, community led local development (CLLD) is often inextricably linked to both land managers and land management.
- Equally, island areas contain a high proportion of environmental designations and priority habitats (e.g. Machair, peatlands) and species (e.g. wading birds, corncrakes, hen harriers), reflecting an abundance of valued natural capital largely created and maintained through High Nature Value (low intensity) land management. Hence what happens to farming and crofting matters economically, environmentally and socially in the three island areas.
- Opportunities and constraints faced by the islands' land managers differ. For example, in terms of underlying biophysical growing conditions, transport costs, demographic trends, digital connectivity and land tenure. The latter is particularly important with respect to crofting and common grazings. Hence the nature of complementarities and trade-offs between different policy objectives varies spatially: a national, one-size-fits all, approach across Scotland cannot address this heterogeneity.
- Crofting remains culturally important in both Shetland and the Outer Hebrides, providing a connection to the land for a large proportion of residents. Common grazings cover c.500k hectares of land in Scotland, accounting for c.10% of Scotland's agricultural land and are significant across the Outer Hebrides and Shetland. However, use of allocated common grazing shares to activate support payments has dropped in some areas, meaning that significant public funding has not been drawn down – funding that could underpin a wider economic base.
- The management of common grazings comes at higher marginal cost than land managed by sole traders, as committees need to be formed and clerks appointed. How future entry level requirements in the Whole Farm Plan, or conditional environmental measures, work on common grazings need serious consideration by

Scottish Government to ensure crofting (and the unique habitats it provides) can survive and thrive.

- Trends over the past two decades show how agricultural production patterns have changed in different ways across the three island groupings (an overall downward drift in supported croft and farm businesses, and some marked reductions in livestock numbers in some places, notably the Outer Hebrides). This reflects the interaction of local conditions with market pressures but also several key changes in support, demonstrating how policy affects land use.
- Engagement with stakeholders across the three island groupings revealed varying levels of prior understanding about current policy proposals, with many exhibiting poor awareness of forthcoming changes.
- Most stakeholders recognised the logic of the proposed four-tier structure for future agricultural support, and the deployment of non-competitive conditionalities as a means of pursuing policy objectives. However, many expressed concerns about the balance across the proposed four Tiers and about the applicability of specific measures. This reflected the perceived relevance of measures to farming systems across the islands but also the likely compliance costs of having to implement them.
- For example, for small-scale producers in receipt of modest support payments, the costs of adopting proposed Tier 1 Whole Farm Plan measures are likely to be disproportionate (i.e. professional fees and opportunity cost of own time will exceed the value of any support payment). This may to lead to small producers not enrolling in Tier 1 (and therefore being ineligible for Tier 2). This risks public monetary flows for land management in some areas where support payments play an important socio-cultural role (croft housing, land management, habitats, links to wider CLLD, etc).
- Equally, many of the proposed Tier 2 measures are either unlikely to be applicable (e.g. woodland creation) across the islands or are defined too vaguely (e.g. livestock breeding) to be interpreted with confidence.
- Moreover, as now, application costs for competitive Tier 3 AECS-type measures are likely to dissuade many applicants. This applies particularly to small-scale producers, especially if collective action is required (e.g. common grazings peatland restoration).
- Such disproportionalities could be addressed through a 'light touch' scheme for small producers and/or a more general redistribution to increase payment rates on the first few hectares of each business plus explicit funding (or direct staffing support) for collective management of (especially) common grazings.
- Budget allocations across Tiers were also raised as an issue by stakeholders in this project, a point reinforced by the declining real term value of overall funding (down by 33% since 2014). The continuing small scale, short-termism and uncertainty of funding for broader CLLD activities was also highlighted as problematic but could be overcome by removing the distinction between agricultural and rural support given that the two are so closely linked in an island context. Greater recognition could be given to the potential role for LAGs as a mechanism for distributing funding from multiple sources to meet locally co-defined priorities.

- The absence of proposals in relation to common grazings (66% of Outer Hebrides' agricultural area; 39% of Shetland's) is particularly concerning and the challenges of collective management under crofting legislation should be viewed as meriting additional specific support; a proportion of common grazing land is already not claiming support funding. The role and capacity of the Crofting Commission in this was raised repeatedly as an issue.
- Similarly, given its local importance, the lack of clarity around the future of the Less Favoured Area Support Scheme was particularly concerning for many stakeholders. The increasing negative effect of inflated transport costs (and transport unreliability) on businesses was regularly cited, and was confirmed by some additional quantitative data gathering.
- Renewable energy installations provide income streams to farms, crofts and communities through Feed-in Tariff Scheme (FITs), land rentals and direct income from larger installations, and defined community benefits. These income streams are often overlooked agricultural businesses, but they can help support ongoing agricultural activity in fragile areas. Many installations are ageing and a long-term commitment to small-scale renewable energy projects is therefore essential if projects are to repower as, for example, FITs installations come to their end of life.
- Small businesses accounted for the highest proportion of private sector enterprises in Outer Hebrides (94.4%), Orkney (95.3%) and Shetland (95%). The high proportion of small businesses in each island grouping underscores their critical role in the local economy. Small businesses are often the backbone of communities, contributing to employment, local economic development and fostering entrepreneurship, but also playing a wider role in directly providing vital services and indirectly supporting them (for example, through their local supply chains).
- SMEs accounted for the majority of business turnover in Orkney and Outer Hebrides meaning that, despite their size, SMEs play a substantial role in generating economic activity and revenue. This highlights the efficiency and productivity of these smaller enterprises. However, in Shetland Islands, SMEs and large businesses contribute equally to turnover (50% each) – showing the impact of larger scale employers (likely connected to the energy and construction sectors).
- Acknowledging that official data under reports micro and sole trader businesses, published statistics show that the primary sector dominates the business base of the island groupings, accounting for 28% (c. 350 businesses) of all VAT registered and PAYE paying businesses in Outer Hebrides and 43% of businesses in Orkney Islands (c. 670 businesses) and Shetland Islands (c. 720 businesses). The Wholesale, retail, and repairs sector also accounts for a considerable share of the number of businesses in Outer Hebrides (13% or c. 165 businesses), Orkney Islands (10.7% or c. 165 businesses) and Shetland Islands (9.6% or c.160 businesses).
- The primary sector accounted for 12.5% of all employment in the Outer Hebrides, compared to 18.6% in Wholesale, retail and repair sector and 14.3% in Accommodation and Food Service activities sector. In Orkney, the primary sector contributes most to

employment, accounting for c.30% of employment, followed by Wholesale retail and repair sector (16.6%), construction sector (10%) and accommodation and food service activities sector (9.6%). In Shetland the main employment is in the primary sector (23%), wholesale (16%), retail, and repairs (10%), and accommodation and food services (10%).

- More specifically, the proportion of the islands' workforce with some (self-reported) working association (often part-time) with agriculture is much higher than for other regions of Scotland, averaging over one-in-ten for both Orkney and Shetland and one-in-five for the Outer Hebrides. Sub-regions within island groupings exhibit even higher proportions. This highlights how agriculture is inter-twined both economically and culturally with wider island life, but also how important agricultural housing (especially crofts) is to workforce availability and stability.
- In terms of demographic make-up, one noticeable trend is an increase in the number of people aged 46 and above, along with a decrease in the number of children (aged 0-16), although there is considerable variation at sub-regional level. Additionally, there's a decline in the younger active working-age population (aged 17-45) across all the islands. These trends have significant implications, such as a higher dependency on elderly care services and increased pressure on adult social care. Moreover, the potential decrease in the working-age population could result in a shortage of labour in various sectors of the local economies of Shetland Islands, Orkney Islands, and Outer Hebrides.
- Orkney Islands has a high proportion (26%) of the population aged 65 and above who remain economically active, meaning they participate in the workforce or engage in economic activities. In the Shetland Islands 20% of over 65s remain active compared to only 12% in Outer Hebrides.
- In conversations with key businesses in Orkney, the interdependence of the wider community and economy on agriculture was emphasised, with suggestions that the economy would not be as healthy, or even surviving well, without agriculture on the islands. With rising inflation, the outer islands, in particular, have seen the cost of freight and inputs rise, although people are still supporting businesses as they are locally owned and run and employing neighbours within their community.
- In Shetland, agricultural inputs such as fertiliser, feed and agrichemicals suppliers are centralised through a small number of businesses providing general agricultural supplies. This does include some primarily marine businesses known to commonly supply smaller value items such as PPE and other miscellaneous items to agricultural businesses.
- Businesses supplying agricultural inputs on Lewis and Harris are predominantly Stornoway based, and many are part of mainland businesses, with branches offering some core products as per mainland stores, as well as adapting to serve local markets, such as providing a small shop in addition to the warehouse. Supply of inputs to North Uist, South Uist and Barra is much more limited, with one store and a haulier supplying inputs, and much shipped from mainland suppliers. A small number of local

general stores, hardware stores and garages provide some feed and general agricultural supplies, and so are partly reliant on crofting for income alongside other business.

- Sales from North Uist were, until recently, conducted by Dingwall & Highland Marts Ltd (DHM) with sales at Lochmaddy mart. However, DHM have recently withdrawn from Lochmaddy mart in response to high costs, falling stock numbers as well as continued issues with ferry reliability. This means many crofters will now need to send livestock by ferry from Lochmaddy to Uig on Skye with the onward journey to Dingwall by road - with producers having no control over animals, options to withdraw from sale, and expected weight loss. Animals are also sold at Lochboisdale Mart (United Auctions) in South Uist, but it appears that selling through Dingwall remains the preferred option for many in North Uist.
- The cost of input supplies and moving finished product to market are considerably higher on the islands than on the Scottish mainland. This puts island producers at a competitive disadvantage from mainland producers (although the island uplift in the Scottish Suckler Beef Support Scheme offsets some of these costs). For example, inter-island ferries contribute significantly to the additional costs of livestock haulage, adding over £1 per head per mile in haulage costs relative to costs on main islands in each grouping. Some crofts located on the northernmost Shetland islands have to travel over 60 miles and take two inter-island ferries to reach Lerwick mart. The importance of the replacement for LFASS to 'level up' the playing field cannot be underestimated, particularly reflecting on the recent period of inflationary impacts and higher fuel costs that affect local and off-island haulage. Ensuring peripherality and distance from markets must become important components of whatever replaces LFASS.
- CLLD is vital to the sustainability of Scotland's Island communities. In many of these communities, the business base is low and therefore community-led activity is vital to sustaining key services, and therefore to maintaining population levels.
- The logistical challenges of ferry services, local labour shortages and lack of affordable housing were also cited as additional CLLD costs, leading to delays and wasted effort for already short-handed project teams (i.e. busy community members who have many calls on their time, both paid and voluntary). Despite their diversity, there is real value in sharing experiences and particularly solutions across islands.
- The continuation of funding for CLLD from Scottish Government is welcome but annual funding places limits on animation and capacity-building and strategic planning. It also creates uncertainty for paid staff and volunteers. A return to multi-annual funding is required.
- There is a need to strengthen the Island Community Impact Assessment (ICIA) process to ensure that these (legislative) exercises are robust and meaningful, but not overburdensome for public bodies. Evaluating ICIAs undertaken so far and learning lessons for how to increase their effectiveness is important.

- Similarly, further understanding is needed of when, how, why and by whom decisions are taken to proceed or not with a full ICIA after the initial screening exercise has been undertaken. In particular, whilst individual policy measures viewed in isolation may not merit a full ICIA, measures viewed collectively in-the-round may do.
- For example, the 2024 ICIA screening report by the Scottish Government on the Agriculture and Rural Communities (Scotland) Bill concluded that a "full Islands Community Impact Assessment is NOT required"[1]. However, given the framework nature of the Bill, this is not surprising since impacts will depend on the more specific policy measures subsequently introduced – which is what this report has focused upon. Hence whilst a full ICIA may not yet be appropriate, it is likely to become so once more policy details are available through (e.g.) the Rural Support Plan.
- At the same time, while ICIAs take place at island group level, there is a need for recognition of the significant differences within island groups, including in terms of transport challenges, access to housing, business development, culture, demographic change, etc. The recently developed Islands Typology may offer a starting point for better understanding of island differences.
- National funding schemes (including for housing, CLLD, etc.) do not adequately allow for the higher costs of delivering activities on islands. Improving islands-specific data (including within island groups) will provide the robust evidence required to make the case for such these uplifts to be set at appropriate levels.
- Lack of access to affordable housing to buy and rent is already a significant challenge for most of Scotland's islands, including both mainland and outer islands in the three groups; it has the potential to further hold back business and population growth in many islands in future. We found evidence of too much focus on development in existing settlements at the expense of smaller communities. Communities are already delivering affordable housing across many islands, but they need more flexibility and support to do so. Relaxing the restrictions on spending the Resource Planning Allocation and providing more information on the forthcoming key worker accommodation scheme will help to begin tackling this challenge.
- Ferries provide lifeline services for island communities but, in many instances the cost, frequency, capacity and unreliability of ferry travel serve to make CLLD – as well as everyday lives - on islands complicated, expensive and unpredictable. There needs to be greater investment in the ferry network to reduce the chance of cancellations, improve reliability and increase capacity, particularly during the busy tourist season.
- There are particularly strong links between CLLD and farming and crofting activity in island communities with land managers often serving as critical agents for community-based activities of various types. Farming and crofting often serve as the base for a range of formal and informal community activities. These inter-relations

[1] Agriculture and Rural Communities (Scotland) Bill Islands Communities Impact Assessment - gov.scot (www.gov.scot)

need to be recognised more explicitly and enhanced positively in the Agriculture and Rural Communities Bill.

- The links between the Rural Support Plan, the National Islands Plan and the forthcoming Rural Delivery Plan need to be carefully and clearly articulated otherwise there is considerable potential for confusion across island communities.
- Island community consultation and engagement needs to be meaningful and focused. It is important to engage with 'hard-to-reach' groups. Reporting back to communities on how and why their views were taken into account (or not) is important. Culture, heritage, history and language are hugely important for locals, in-migrants and visitors to Scotland's islands. These assets can form a sound basis on which to build locally embedded CLLD activities.

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Prof Steven Thomson

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