

SLMG/SACL Resilience Review 2017

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INTRODUCTION

The Shetland Abattoir Co-operative Ltd (SACL) is a registered co-operative for the benefit of the community, which holds the assets of the mart and abattoir. Shetland Livestock Marketing Group Ltd (SLMG) is also a co-operative for the benefit of the community, which rents both facilities from SACL, carries out trade on the site and own moveable assets. The fortunes of the two co-operatives are intertwined as each relies on the other to survive and have many common members. For the purposes of this review both will be treated as one. Both organisations are of paramount importance to the rural economy of Shetland with several hundred businesses in the membership of each. In the last financial year SACL made an operating surplus of ~£1,577 and SLMG ~£1,400.

1. Notwithstanding the modest financial performance, the directors felt it would be timely to undertake a fundamental review of both businesses to establish a clear direction and set of priorities. This is now considered particularly relevant in light of the vote for the UK to leave the EU which will have an effect on both support available for farmers and crofters as well as potential impacts of reduced market access, combined with recent concerns over access to, and security of, the adjacent lairage.
2. SAOS has undertaken a review, the objectives of which were to identify routes to secure the long term sustainability of both co-ops and by extension strengthen the position of livestock producers on Shetland.

TRADING CONTEXT

3. Livestock is the main farming enterprise on Shetland with sheep and cattle being the dominant species. Although an island, the services provided by SACL & SLMG are not without competition.

Market Competition

Mart

4. Competition for the sale of livestock comes from two key sources; competing auction companies and private buyers. The predominant auction competitor is Aberdeen and Northern Marts (ANM), based at Inverurie, who have long term relationships with farmers on Shetland and facilitate the sale and export of livestock to their base in the North East of Scotland. There is a delicate balance to be aware of between SLMG and ANM as ANM are contracted to run sales by SLMG in a partnership agreement. There are problems attracting buyers to Shetland, reducing competition. In the past assistance for travel has been offered to attract buyers to the mart. However this is now deemed unviable, ways of re-visiting this



should be investigated to encourage competition in this area. Alternatively technology should be investigated to allow remote participation by buyers. The mart also gives local farmers and crofters the benefit of a 'price discovery' mechanism through an open auction setting and importantly the ability to reject the offer price and take their livestock home. This is not feasible if the animals have already left Shetland to be marketed elsewhere. The provenance of Shetland livestock including the benefits of the unique Shetland Animal Health Scheme¹ (SAHS) is lost once the animals have left the islands. The continuation of the SAHS relies on the cooperation of islanders just as the mart does.

5. Private sales are also carried out both between farmers on the islands and with private buyers buying to export off Shetland. Again there are attractions for both systems, with the ability to cut out commission for private sales. Nevertheless the marts can guarantee prompt payment.
6. In order to combat competition SLMG must make clear to members the benefits of the local auction facility, including price discovery mechanism, lower costs of transport to the seller and guaranteed payment. It can however be extremely difficult to carry out direct comparisons of costs. This is something the new QMS Monitor Farm at Bigton could look into, with an independent assessment of the strengths and weaknesses of each method of marketing.

Abattoir

7. Competition for the abattoir comes from two sources, home kill and imported red meat products.
8. ““Home slaughter” is the slaughter of a livestock animal by its owner on their property for their own personal consumption or that of members of their immediate family living there.” (Food Standards Agency, 2013) It is not legal to sell meat which has not be slaughtered in a licenced abattoir. This practice not only deprives the abattoir of potential revenue, but introduces to the domestic market an inferior and potentially dangerous product, produced by a process with little acknowledgement to the animal’s welfare and no official adherence to food safety. In order to ensure costs are reasonable, the Island Abattoir Association carried out a benchmarking exercise, where Shetland was shown to provide a competitive service. [Link here](#) (SAOS & Princes Trust, 2016). Due to the nature of home kill there are no figures available relating to the scale of home kill.
9. There does not appear to have been any work done to estimate the quantity or value of imported red meat onto Shetland. Given the abattoir is the only facility for locally produced red meat to be killed and butchered, SLMG have a good understanding of who is using the facility and the quantities used. It would appear much of the red meat consumed on

¹ <http://www.shetland.gov.uk/environmentalhealth/ShetlandAnimalHealthScheme.asp>



Shetland, whether purchased from a supermarket or in a restaurant, is indeed imported. There is an opportunity for the newly formed Shetland Food and Drink Association to work alongside the abattoir to measure this and promote the consumption of locally produced red meat. One of the key recommendations of a report carried out on Island Abattoirs was:

That the Association explore the potential of local authority/government/health boards' procurement by making a strong case for the added economic and social advantages of local supply. This highlights another potential market for the abattoir which is procurement by local authority and government agencies.

10. These facilities are critical parts of the rural infrastructure; they enable primary agriculture to take steps to add value to produce and thereby improve the financial returns in peripheral rural areas as well as add to the overall Shetland brand which is highlighted by initiatives such as "Promote Shetland"¹ which highlights activities, tourism and the finest food and drink which Shetland has to offer. Tourism is increasingly important to these islands and will continue to be so for the future. The marketing story relies upon the outstanding environment and the pure food that is produced within it. Provenance and animal welfare are large parts of this regional food story and are enabled by the presence of operational island abattoirs, Shetland Lamb being given Protected Designation of Origin (PDO) status by the EU protected food name scheme² highlights the market potential for the brand. Tourists visiting these islands tend to seek authenticity of experience and local foods are a key component of the Shetland experience.

SHETLAND AGRICULTURE

11. Figures from the Scottish Government "Economic Report on Scottish Agriculture" (Scottish Government, 2016) demonstrate the difficult trading conditions for farmers and crofters across Scotland. However with higher costs for feed and access to market it is clear that conditions are considerably harder on Shetland.
12. Annex 1A & B demonstrate an apparent stabilising of a general downward trend in livestock numbers, both across Scotland and on Shetland itself, this is due to a variety of factors, not least de-coupling of support systems and economics of keeping livestock. Increasing regulatory burden placed on animal keepers may also discourage small crofters from keeping livestock.
13. As shown in figure 1 the abattoir has seen sustained and impressive growth in throughput since its opening in 2011, demonstrating the value placed on this service by farmers, crofters and butchers. Following a period of growth it also shows a slight decrease in numbers sold

¹ <http://www.shetland.org/>

² <https://www.gov.uk/government/publications/protected-food-names-shetland-lamb-pdo>



through the mart ring in 2016, it remains to be seen if this was an anomaly or the start of a trend. In general the numbers of cattle handled by SLMG/SACL is increasing both in total and as a percentage of the Shetland total.

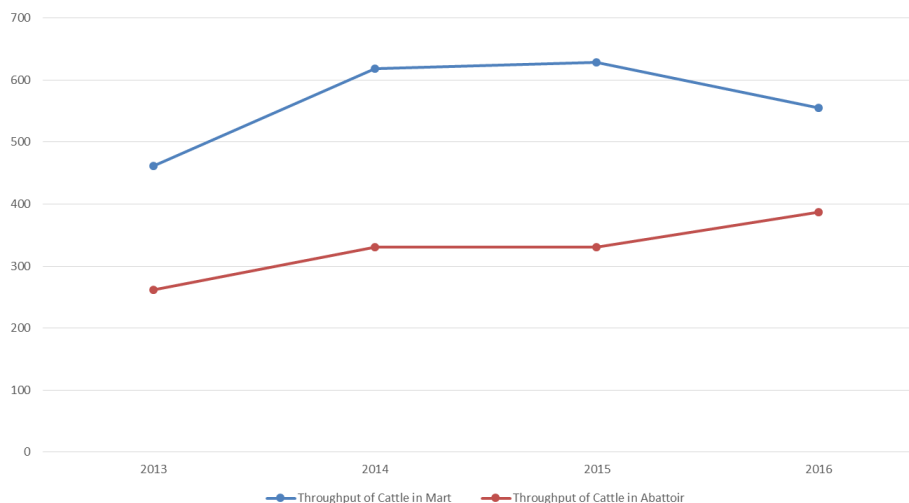


Fig 1 – Cattle trends of Mart & Abattoir

14. Sheep numbers across Scotland are showing signs of a revival after a period of decline as shown in Annex 1C. This may be due to the lower risk involved in breeding sheep, with fewer requirements for expensive housing and feeding. However with the potential for a reduction in EU support this revival could be under threat. Annex 1D reflects this trend on a more local level, both for Shetland and the co-ops. Figure 2 highlights the consistent performance of both co-ops.

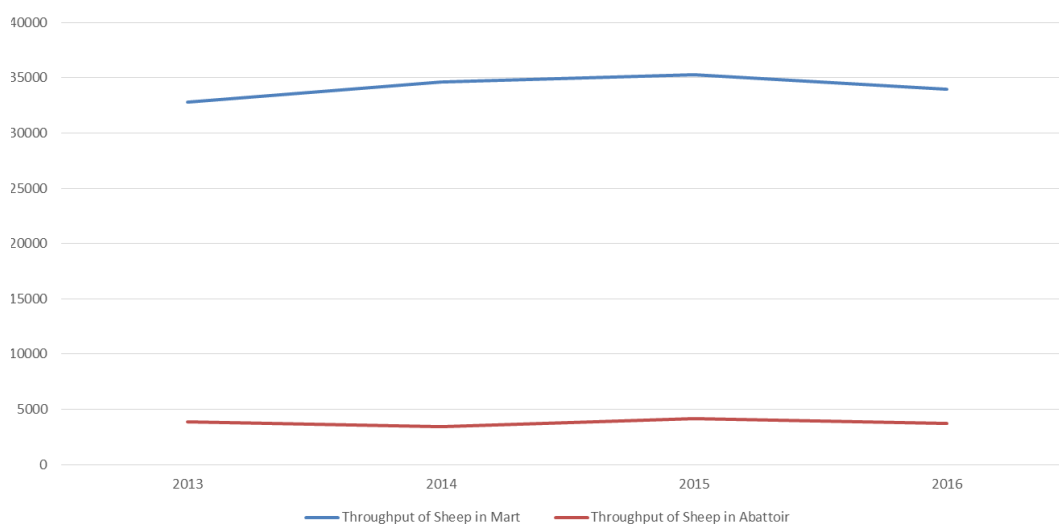


Fig 2 Sheep Trends of mart and abattoir



Agricultural Profitability

15. The key to the future of farming and crofting on Shetland is the maintenance of an economic return for the production of their main outputs such as beef and lamb. Quality Meat Scotland (QMS) provide figures each year on the financial “margin” for different farming systems. Table 1 (QMS, 2016) highlights the systems most likely to relate to Shetland.

Enterprise	Top 33%	Average	Bottom 33%
Hill Suckler Cattle Net Margin/Cow	£-18.80	£-153.84	£-350.60
Hill Sheep, Net Margin/Ewe	£3.22	£-16.64	£-25.16

17. These negative income figures on the face of it paint a pessimistic picture however they also include “non-cash” sums such as depreciation and it is not clear whether there is a nominal cost included for family labour. The figures also include subsidies which are directly attributable to production but not areas based payments which make up the bulk of farm support on Shetland.
18. When these single unit losses are multiplied by the totals for cattle and sheep on Shetland if the average figure is used then in the past year Shetland as a whole made a loss of £5,326,382 on its beef and sheep enterprise. The total subsidy paid to Shetland in the past year was £5,300,475. (DEFRA, 2016) This highlights the precarious nature of livestock farming on the islands and should be a matter of considerable concern for the local authority and local development agencies.
19. There are some mitigating factors: as mentioned there are non-cash figures used and the low input systems employed on Shetland may be more efficient. However it highlights the importance of adding value wherever possible. Reliable figures are not available but the proportion of cattle and sheep which are put through the abattoir and sold direct to market as a niche product mean that there are greater margins to be gained.

Farm Support

20. Farm support in the form of EU subsidy schemes has been falling for a number of years, particularly with the change from a production based headage payment to an area based Single Farm Payment (SFP) and now Basic Payment Scheme (BPS). See Annex 2. The future of farm support is currently uncertain however there is a strong likelihood that future support will be more closely linked to environmental benefits. SLMG & SACL should continue to work on behalf of their members to encourage and prove the strong environmental credentials of native Shetland Lamb and beef. With low GHG emissions and high carbon sequestration through well managed peatland, Shetland’s agricultural sector has a very positive dimension to its production system. An example calculation of this is below, stating



that native Shetland lamb is beyond carbon neutral and is having a positive effect on the environment, given the low use of inputs as well as the high levels of CO₂ equivalent sequestered by grass and peatland. (Halcrow, 2013)

GHG emission	kg CO ₂ -equivalent (+ emission / - sequestration)
Fuel & Electricity (per hectare)	0.30
Sheep (per hectare)	179.06
Soil sequestration (per hectare)	-530.00
<u>Total GHG emissions</u> (per hectare)	<u>-350.64</u>

WIDER BENEFITS

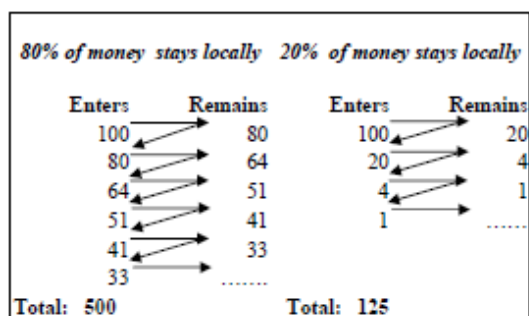
Agriculture

21. As with any sector and business SACL & SLMG do not operate in isolation, the work they do has a knock on effect to the whole island economy. A report by Development Economics, for the National Farmers Union (NFU) made a calculation of the value to the UK economy of agriculture when compared to levels of support. "During 2015, farming made a major contribution to the nation, being worth at a minimum 7.4 times the support it received via direct payments plus the carbon costs and external costs for soil, air and water resources of UK domestic food production." (Economic Developments, 2017) If these figures were taken and applied to Shetland the contribution of agriculture to Shetland would be over £39m. This figure seems unreasonably high, figures used for the calculations seem to include all output of agriculture rather than the gross value added. The figure also credits agriculture with the use of the countryside for recreation which may not be fully attributable. Notwithstanding this comment, even if this calculation is halved, it still demonstrates the impact and importance of agriculture to the UK economy and by extension Shetland. The wider benefits of agriculture currently ensure that rural economies can survive and maintain local services for all rural communities which would not be possible with reduced agricultural activity.

Economic Multipliers

22. Economic multipliers are a method for calculating how money is retained within an economy as the example below explains. First developed by John Maynard Keynes, the multiplier tracks money once it has been spent as the diagram below explains





The starting point in each situation is that £100 enters the local economy. If 80% of each £1 spent stays in the local economy, the total amount of spending that that £100 will generate is about £500 - a multiplier of 5 (500 divided by 100). If only 20% of each £1 spent stays in the local economy, the total spending is only £125. This gives a multiplier of only 1.25 (125 divided by 100).

23. The New Economics Foundation (NEF) has developed a tool for measuring the multiplier effect of money spent in local communities. Their LM3 technique (Local Multiplier 3) is widely accepted as an accurate measure of economic activity and benefit. This works by carrying out three rounds of calculations to ascertain how much money in a specific sector or organisation stays within the local economy, while reducing the spending rounds to 3 due to the majority of benefit being within these rounds as well as making the calculation more manageable. Due to the nature of the calculation the maximum multiplier is 3 which would mean that all the money spent was retained in the local economy throughout the three rounds and the minimum is 1 with no money staying in the local economy from a transaction. The LM3 tool is an indicator rather than an exact measurement but it does give a general sense of performance, therefore they are open to interpretation. (Sacks, 2002)
24. Unfortunately due to the scale of work required to carry out a study of this kind, there is not time or funding to calculate a bespoke LM3 figure for SLMG & SACL, however similar calculations have been carried out from which comparisons can be drawn. As stated by the NEF these are always indicators therefore open to interpretation and extrapolation.

Examples of Local Multipliers

Cusgarne Organics

25. Cusgarne Organics are a farm shop in Cornwall supplying a range of local food while providing local employment. The NEF carried out the study as part of a pilot to test LM3 methodology. The following results were found. (Boyde, 2001)

The Direct effect is £157,000
 The Indirect effect £184,068
 The Induced Effect £ 64,989.60
 Giving a total of **£406,057.60**
 Divided by the turnover of £157,000
 Gives a multiplier figure of **2.59**



This means that for every £1 spent at Cusgarne Organics £2.59 is generated for the local economy. As a comparison a similar process was undertaken with major supermarkets (Asda and Tesco) which found their LM3 was just £1.40, reflecting the value leaving the local area.

Skye & Lochalsh Food Link

26. A study commissioned by HIE in 2007 using LM3 principles found that if each resident spent just £2.50 per week on locally produced food and drink the effect on the local economy would be a net gain of £1.35m (SAC Consulting, 2008), which if extrapolated up to the number of residents of Shetland could see a net gain of £2.34m.

This means that for every £1 spent on local food in Skye & Lochalsh £1.83 is generated for the local economy. Giving a multiplier of 1.83

Durham School Meals Service

27. A study completed in March 2017 looked at the environmental, social, economic and nutritional economic impacts of food procurement for primary schools in the Durham area. This study defined local as within 40km of Durham County Council Offices.

“Following the method described..., we estimated that the local multiplier effect of the Durham school meal service is 2.50.” (Tregear, Brennan, & Sayed, 2017)

Shetland Local Multiplier

28. Given the examples above there is a basis on which to make an estimation of a multiplier for the activities of SACL & SLMG. An argument can be made that in an island economy more money stays within the local boundary. The full economic benefit can only be felt if the products are produced, processed and consumed locally, providing employment and the local effect. To that end SACL & SLMG are well placed to do this. **Our estimate would be that LM3 economic multiplier for SACL & SLMG would be in the region of 2.4-2.6, given the vast majority of the transactions will result in money moving between members of the local community, purchased through local outlets and in many cases be consumed locally.** This figure could be higher given the crucial role the abattoir plays in allowing farmers and crofters to add value to their businesses and their own continued viability. The services provided by SLMG/SACL as well as their co-operative structures are essential for the continuation of many farms and crofts on Shetland.

In summary the critical issue of strengthening the rural economy is central to Shetland economy as a whole. Post-Brexit this can be achieved through encouraging more local food production and consumption

BUSINESS DEVELOPMENT

Strategic Objectives



29. In March 2017 a strategy workshop was held with directors of SLMG. The aim of the workshop was to create a vision and clear strategic objectives for staff and directors to follow for the forthcoming five years. A summary is outlined below.

SLMG Strategic Plan 2017-2022 - Summary

Purpose	<p>SLMG is a co-op owned by its members and run for their advantage.</p> <p>“To maintain and develop a viable co-operative business providing an auction mart and abattoir to serve crofting, farming and the community of Shetland”</p>
Vision	<p>Our future vision for SLMG is:</p> <p>To continue to invest in facilities for member and staff benefit. To grow our membership and the business conducted with them. To be our customers first-choice for selling livestock To be an organisation that cares and values its staff. Allowing individuals to grow and develop, making a full contribution to SLMG. To ensure SLMG is our members’ first-choice for our services. To adopt a culture of striving to be the best at what we do. To be a nimble, flexible organisation.</p>
Corporate Strategy	<p>The strategy is managed growth, where SLMG continues to strengthen the business ensuring it has a strong foundation, and is ready to expand when market conditions allow. The priority is to build the balance sheet and ensure long term competitiveness.</p>
Business Objectives	<p>The 5-year business objectives are:</p> <p>Abattoir cattle throughput increased to 600 head Abattoir Sheep throughput increased to 6500 head Mart cattle to 40% market share Mart Sheep to 50% market share Members number to be 60% of farmers and crofters on Shetland Build cash reserves to equal or exceed 6 months overhead costs</p>
Strategic Objectives	



	<p>There are four strategic objectives:</p> <ul style="list-style-type: none"> • Increasing local production • Communications and Education • Build Internal Capability (staff & processes) • Asset Security and Development
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Recruitment & Succession

Staff

30. Currently there is a small team who are fully committed to the success of the co-ops. In order to grow it is important to ensure there are more suitably trained and skilled workers available. Both the mart and abattoir have both full time and part time staff. This can be a good way to bring in new people and assess their capability and suitability. There is also potential to engage with a modern apprenticeship programme along with other island abattoirs. This opportunity was highlighted by the Island Abattoir project as stated below.

Modern Apprenticeships (Slaughter and Butchery) SQA Unit Code H64M 04 SCQF Level 8

The project worked closely with Polaris Learning Limited to develop appropriate training and work experience frameworks and the recruitment of Modern Apprentices for the all the facilities with the exception of Lochmaddy and Stornoway. Stornoway Abattoir is keen to look at employing a Modern Apprentice: however, the issue of the Abattoir being open for only about 6 months of the year prevents them from engaging in the programme. To resolve this issue the Project Team sought and obtained the agreement of Skills Development Scotland to run a 'Shared Modern Apprenticeship' with the abattoir working with a local butcher to develop a programme of training and work experience. A local butcher was identified but, unfortunately, circumstances changed and that opportunity did not materialise; however, the abattoir are hopeful that another local butcher willing to participate can be found and recruitment commenced.

31. It is a strategic objective to grow the businesses to provide a critical mass to allow for the employment of further staff which solves issues of staff holidays or sickness resulting in a reduced service. The modern apprentice programme could be a route to do this.
32. Alongside this there is an aspiration to put in place a Development Manager to move the co-ops closer to their members and increase throughput, as well as developing markets for processed lamb and beef which would add value for members. Currently there are no obvious sources of funding to help with this, however Highlands and Island Enterprise may be in a position to help if SLMG or SACL were to become an account managed business.

Board of Directors



33. SLMG have a chairman in place who has done a very good job over a number of years. Currently there is no clear succession plan in place within the boards of SACL or SLMG. This should be of concern to the membership, as well as the direction the co-op will take if and when the chairman chooses to step down. It is recommended that this should be rectified with a defined policy as per the "Governance Code for Agricultural Co-operatives". (Co-ops UK & SAOS, 2014) which sets out two options, both of which require thought to keeping the members of the board fresh and ensuring there is a mix of experience on the board which should in turn ensure there are directors willing to fulfil the role of chairman, below is the most common and straightforward approach.

No director should serve more than three consecutive three year terms and should step down for a period of at least one year before becoming eligible for election for a further term.

Member value Statement

34. As part of another project with SAOS, methodology has been put in place to measure performance of the co-op alongside measuring the value provided to members. This statement can be updated annually and provided to members. This also helps to evaluate staff performance and success of strategic objectives. This will support the recruitment process and retention of members.

Tourism Activities

35. The mart facility provides an opportunity to play host to incoming tourists with easy access and good facilities, including a café. Initial discussions have taken place with the Lerwick Port Authority to investigate potential opportunities. The Mart building offers an ideal opportunity to showcase the famed Shetland livestock and ponies as well as traditional local cuisine.
36. Allied to this the abattoir plays a crucial role of ensuring there is local produce available for the growing tourism sector. Without the abattoir there would be no legally produced red meat available thus reducing the provenance of food from Shetland.
37. Working with tourist authorities SLMG & SACL have an important role to play within the newly formed Shetland Food and Drink Association as a vital link in the supply chain and in providing good provenance stories from their members and their livestock.



RESILIENCE

Finance

38. Although currently making modest surpluses' it is important to build the balance sheets of both SACL & SLMG. With staff employed and commitments to members, there needs to be a greater level of security for the co-op. Not only to ward off any shocks but also to take advantage of opportunities. Strategies for maximising income from both traditional core work and also by diversifying income streams. However this cannot be done on the back of the membership paying higher commissions, as noted above the economics of farming and crofting are already under immense pressure.

Asset Based Development

39. The mart building currently houses the offices for SLMG & SACL, as well as SAC consulting on the first floor and Ms Beaton's café on the ground floor. There are 4 further small office/store rooms which have the potential to be let out, although desirability may be reduced due to design and no natural light. Further lets will not only help by bringing in further income but also to establish the mart as a business hub. A brief look at current market figures would suggest a rental value of between £10-£12/sqft.

Lairage

40. Currently lairage fields are rented from Shetland Islands Council. This agreement has been in place since the opening of the mart. There are however plans to develop part of the current lairage which would cause significant difficulties for the mart and abattoir. The current lairage serves two purposes; firstly it allows stock to be deposited at the mart before the sale day reducing pressure on loading and allowing farmers and crofters from further islands to sell stock this way. Secondly and most importantly the lairage provides a safe haven for livestock should there be any issues with buyers not being able to remove stock on the day of a sale. This is mainly due to weather issues with ferry's etc. although major disease outbreaks such as Foot & Mouth could see the requirement for animals to be held at the mart for a period of time.
41. The welfare of the animals is paramount and it is essential that they have access to forage and water if this happens. In the worst case scenario there is no other way of ensuring the welfare of these animals, with no supplies of conserved fodder or water as well as not enough capacity to house under cover. Unfortunately this is an all too common occurrence the last instance being on the 7th April when 140 cows could not sail on the ferry that evening. Previously both APHA (Animal and Plant Health Agency) and local authority staff have confirmed it is an essential requirement to have contiguous lairage
42. If at all possible SLMG need to work to remove the threat of losing this facility. This could take the form of a longer lease or the purchase of the land. This however would require the co-operation of SIC to make the land available. All other strategies and plans put in place



rely on the mart being able to trade which in turn relies on the security of a lairage facility. If SIC agree that the mart must have control of this land as a lairage then it would seem sensible for them to hand over ownership to SLMG/SACL which are both cooperatives for the benefit of the community



CONCLUSIONS

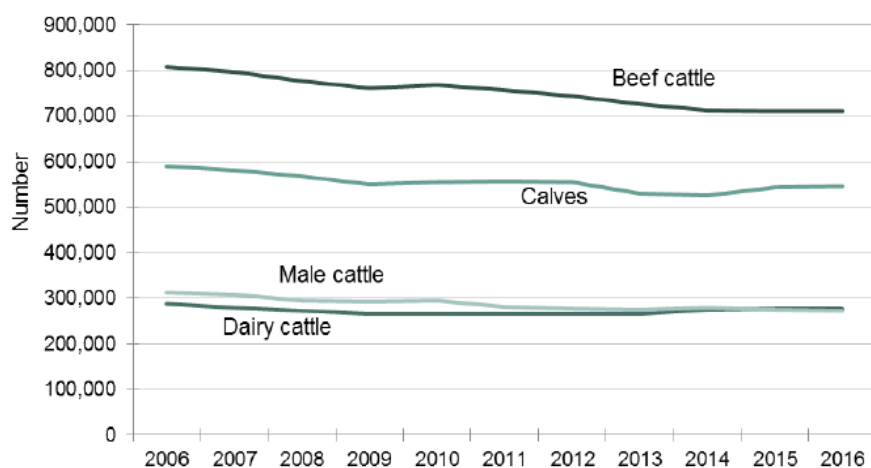
43. Clearly both the abattoir and mart are key elements of both the agricultural industry as well as the overall economy of Shetland. The mart provides the opportunity for farmers and crofters to market their produce to their best advantage, whilst also allowing true price discovery for their stock.
44. The abattoir fulfils dual roles, firstly allowing producers to either kill and butcher their own livestock for home use in a professional manner or add value to their products by shortening supply chains and selling direct to the consumer, retailer or wholesaler. Secondly the abattoir allows the provenance of Shetland meat to be enjoyed. Allowing retailer and caterers to make use of high quality local produce. There will also be improved 'public goods' for society as a result of the environmental benefits through the reduction in food miles and land management practices undertaken on Shetland.
45. Without the abattoir and mart red meat produced on Shetland simply becomes another commodity meat once it leaves the islands, similarly Shetland buyers will only have access to commodity meat.
46. As one of the largest purchasers and users of red meat in the area, local authority and public bodies have the ability to make a huge impact on the local economy simply by purchasing meat and food produced and processed on Shetland. Not only does this help the quantity but also the year round market for high quality products at a fair price.
47. Succession planning should be put in place to safeguard the long term future of the co-ops as well as allow long term planning to take place.
48. The lairage is essential for the ongoing trade of the mart, given the geographic location and unpredictability of ferry transport for livestock. All business strategies rely on the continuing availability of the lairage for the long term.
49. Farming and crofting on Shetland however is going through a very difficult period, with reduced government support and the potential loss of EU markets, finding a way to increase the value of land-based produce is essential.
50. The local effects of Brexit are as yet unknown. However with the likelihood of agricultural support being reduced there will be pressure placed on the rural economy. Waiting until the final outcome is known is not an option as that will be too late.
51. It is critical for peripheral areas, such as Shetland, to value their own local food economies. The maximisation of procurement and consumption of locally produced foods strengthens businesses large and small. SLMG/SACL play a vital role in this wealth creation



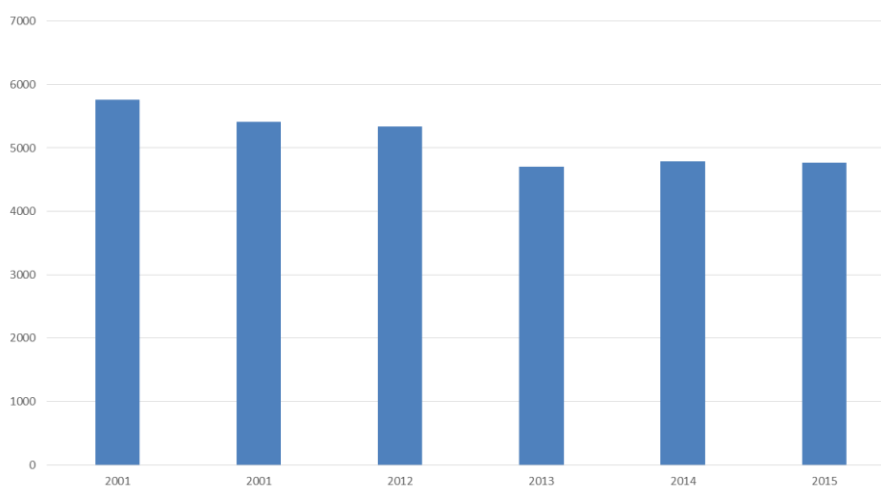
ANNEX-ONE

Data and figures from SLMG & SACL records as well as the Scottish Government

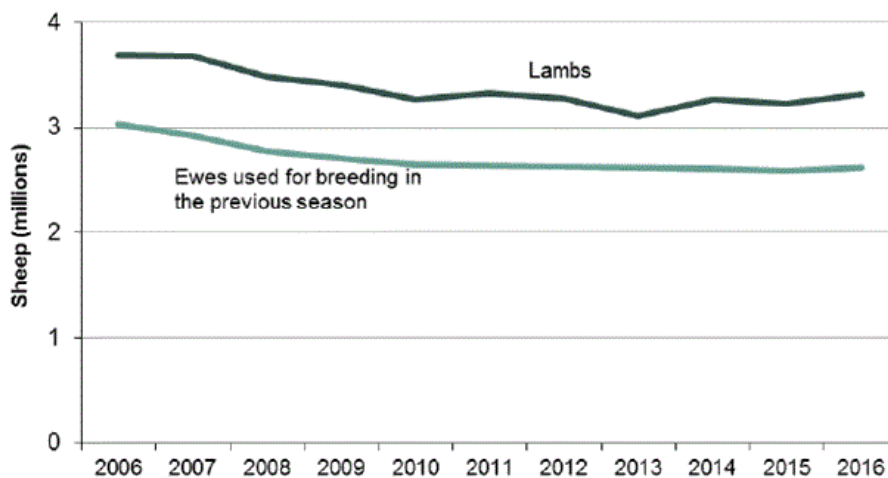
A. Trends in Livestock numbers 2006-16 (Scottish Government, 2016)



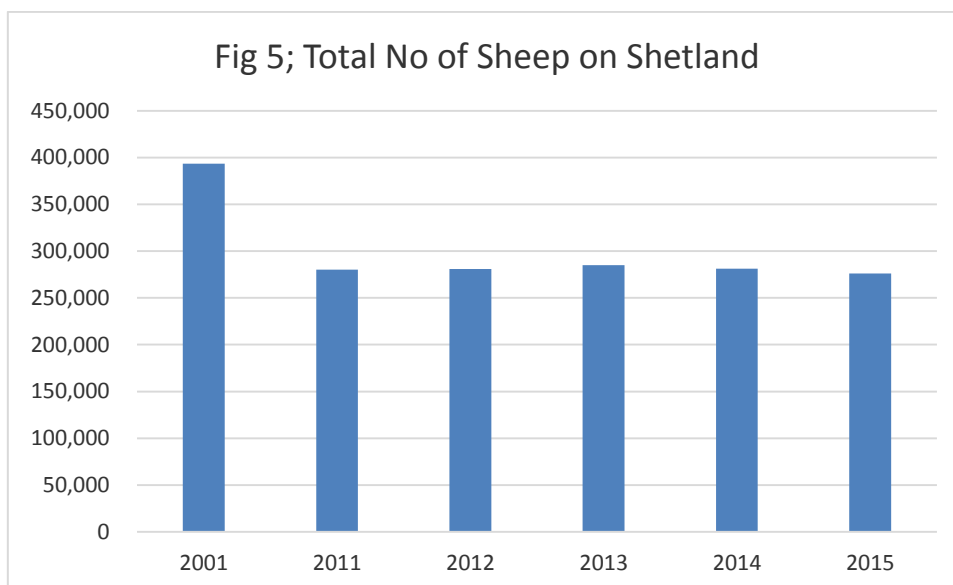
B. Cattle on Shetland trends



C. Trends in Scottish sheep numbers 2006-16



D. Sheep on Shetland trends



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