

Item: 12

Development and Infrastructure Committee: 5 February 2019.

Orkney Abattoir.

Report by Executive Director of Development and Infrastructure.

1. Purpose of Report

To consider declaring the former Orkney Abattoir surplus to service operational requirements.

2. Recommendations

The Committee is invited to note:

2.1.

That, between May 2012 and January 2018, Orkney Meat Processors Limited operated the Orkney Abattoir, Hatston Industrial Estate, on three to four days per month on the basis of a facility hire agreement.

2.2.

That, in January 2018, due to the Council no longer possessing the staff resources necessary to maintain its safe operation, an operational decision was taken to cease access to the facility.

2.3.

That the Orkney Abattoir facility is of a scale that is disproportionate to current and future anticipated levels of market supply and demand and, due to the historically high levels of fixed and operating costs, it is apparent that continued operation of the abattoir is now no longer a sustainable commercial activity.

It is recommended:

2.4.

That the Orkney Abattoir at Hatston Industrial Estate should remain closed and be declared surplus to operational requirements of the Development and Infrastructure Service.

3. Background

3.1.

In 2004, following a £2.85 million upgrade to the facility, at a net cost to the Council of £1.74 million, Orkney Meat Limited entered into a 25-year lease with the Council in respect of the refurbished Orkney abattoir.

3.2.

In March 2012, having experienced a period of difficult trading conditions, the Board of Orkney Meat Limited decided to cease trading and dissolve the company.

3.3.

In April 2012, the Council purchased the plant and machinery owned by Orkney Meat Limited and which was installed at the abattoir, for the written down book value.

3.4.

Between May 2012 and January 2018, Orkney Meat Processors Limited operated the abattoir on three to four days per month based on a facility hire agreement, during which time the Council largely maintained the building, plant and equipment.

3.5.

In January 2018, due to the Council no longer possessing the technical staff resources necessary to maintain its safe operation, and due to the significant projected cost of procuring a repair and maintenance contract, an operational decision was taken by the Executive Director of Development and Infrastructure to cease access to the facility.

3.6.

The butcher members of Orkney Meat Processors Limited have since been collectively shipping livestock for slaughter to an abattoir in Dingwall and transporting the carcasses back to Orkney for processing. This alternative arrangement is, however, not one that can adequately replace all the services that were previously offered at the Orkney abattoir. For example, there have been substantial efforts applied by individuals, primarily small and rare breeds producers, to highlight the difficulties that may be faced by such businesses in finding a direct replacement for the Orkney abattoir.

3.7.

It has become evident that due to market changes, the abattoir facility is now of a scale that is disproportionate to current and future anticipated levels of market supply and demand and, due to the high levels of fixed and operating costs, it is apparent that continued operation of the abattoir is now no longer a sustainable commercial activity. It was, however, thought that a new-build abattoir on a much smaller scale might perhaps be a feasible business proposition, hence the launch of the Abattoir Challenge Fund in October 2017.

4. Property and Operational Review

4.1.

Previous reports have highlighted both the deteriorating condition of the facility and the installed plant and equipment, and the costs associated with maintaining it. Between April 2012 and December 2017, the Council spent almost £1 million in maintaining the facility in an operational condition. Council inspections in September 2017 indicated that a further investment of at least £250,000 would be required over the coming year for repairs and replacement of machinery, with a further £100,000 (minimum) needed in each of the following two years for on-going replacement. These valuations excluded the staff time cost of routinely maintaining the facility, estimated at 2.6 contract days per week. In addition, utility costs and non-domestic rates represented an on-going substantial overhead for both the Council and the operator.

4.2.

The decision taken by Orkney Meat Limited in 2012, together with later evidence gained during Orkney Meat Processors Limited's occupation, demonstrate that in terms of prevailing market conditions and supply and demand markets, the abattoir is unable to be operated profitably. Furthermore, despite introducing cost-cutting measures and absorbing much of the facility management costs within their own butchers' businesses, Orkney Meat Processors Limited had been accumulating increasing losses.

4.3.

A previous study report, 'The Provision of Future Abattoir Services and Markets for Orkney Beef and Lamb' commissioned jointly by the Council and Highlands and Islands Enterprise in 2016, highlighted the disproportionately high cost of operating the Orkney facility and set out the challenges and high capital costs that would be faced in establishing a sustainable trading position at that site.

4.4.

All Scottish abattoirs require a nominated Food Business Operator to hold the necessary regulatory approval from Food Standards Scotland. In October 2018, Orkney Meat Processors Limited surrendered their approval to operate a slaughterhouse and cutting plant at the Orkney Abattoir. Consequently, the abattoir currently has no regulatory approval in place.

4.5.

In terms of EU Food Hygiene Regulations, specifically EU 852/2004 and 853/2004, if the Council was to consider re-opening the existing abattoir or the provision of a new abattoir facility, a suitably qualified abattoir Food Business Operator would first have to be identified to be responsible for running the plant in a hygienic manner and to obtain the necessary approvals. Given the potential costs to the Council and to any future operator, it is extremely unlikely that any future operation of the existing abattoir would be considered viable.

4.6.

As a vacant property, substantial costs, as set out in the table below, continue to be incurred by the Council without any balancing income or economic benefit. In terms of the utilities costs reflected below, savings have been achieved during the current financial year due to no water currently being consumed and the electricity supply rating having been downsized. External maintenance costs are based upon the previous year's costs and will increase as the building fabric ages and deteriorates.

Cost heading	Annual cost
Non-domestic rates (2018/19)	£41,998
Utility standing charges	£10,200
Vacant Buildings insurance (2018/19)	£2,982
Essential external maintenance (estimate)	£3,000
Other (mainly pest control)	£2,200
Total	£60,380

4.7.

Before alternative uses can be considered either for the buildings or the site, it is necessary to establish that the abattoir will not be re-commissioned. Disposal options can then be explored and evaluated through the appropriate process. The Development and Infrastructure Service has no operational requirement for the facility. It is therefore recommended that the currently vacant Orkney Abattoir should remain closed and no longer be considered available for operation as an abattoir. Consequently, it is recommended that the property be declared surplus to the operational requirements of the Development and Infrastructure service.

5. Corporate Governance

This report relates to governance and procedural issues and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

6. Financial Implications

6.1.

The estimated on-going annual costs associated with maintaining the vacant abattoir property are set out in the body of the report.

6.2.

The potential cost of reinstating the abattoir to a fully compliant and operational condition is now unknown but it would be expected that any re-commissioning cost plus on-going operational costs would be met in full by a commercial lease between the Council and an identified tenant.

6.3.

As previously reported, the amount of income obtained from hiring out this facility fell well below the level required to meet the Council's associated property costs. It is also evident that revenue generated by the operator in recent years was not sufficient to cover their operational expenditure.

6.4.

The provision of an abattoir is not a core Council service or Development and Infrastructure Service responsibility. This property is held on the Strategic Reserve Fund, as an investment property, where a dedicated budget will require to be retained for the purpose of maintaining the vacant property pending a conclusion of the Council's surplus property review process.

7. Legal Aspects

There are no legal implications arising from the recommendation of this report.

8. Contact Officers

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