

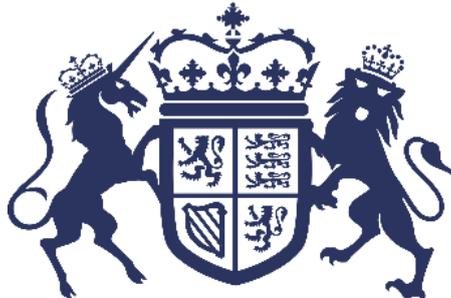
# Islands Growth Deal



## Heads of Terms Agreement



Scottish Government  
Riaghaltas na h-Alba  
gov.scot



UK  
Government



**ORKNEY**  
ISLANDS COUNCIL



**COMHAIRLE NAN EILEAN SIAR**



**Shetland**  
Islands Council

Our signing of this document confirms our joint commitment to achieve full implementation of the Islands Growth Deal.



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Mr Michael Matheson MSP

Cabinet Secretary for  
Transport, Infrastructure and  
Connectivity  
Scottish Government



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Mr Iain Stewart MP

Parliamentary Under Secretary  
of State for Scotland  
UK Government



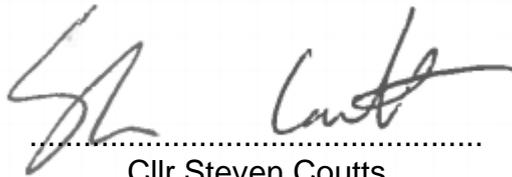
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Cllr James Stockan

Leader, Orkney Islands Council



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Cllr Roddie Mackay

Leader, Comhairle nan Eilean Siar



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Cllr Steven Coutts

Leader, Shetland Islands Council

## EXECUTIVE SUMMARY

1. The Islands Growth Deal was developed by Comhairle nan Eilean Siar, Orkney Islands Council and Shetland Islands Council together with their partners in the public, academic, business and community sectors. It aims to harness the islands' unique assets to create world class, innovative and globally focussed industries that will help address the islands' severe demographic challenges and strengthen the distinct and important contribution the islands make to the economic vitality and international reputation of Scotland and the United Kingdom.
2. The three Island Councils are the smallest in Scotland with a combined population of around 72,000 (1.3% of Scotland's population) and their communities are some of the remotest from the main population centres of Scotland and the UK. Yet despite their size and remoteness, the islands' profile is global, regularly topping international lists of the best places to visit. The islands make an outsized contribution to the economy, including 50% of Scotland's aquaculture GVA, 30% of Scottish sea fish GVA, and they handle 13% of the oil and gas produced in UK waters. With 47% of Scotland's marine estate and 40% of its coastline, the islands also have access to significant untapped blue economy opportunities in areas such as offshore renewable wind, wave and tidal energy, sustainable aquaculture and marine biotechnology. They also contribute substantially to Scottish and UK cultural, historic and natural heritage and are recognised world class tourist destinations.
3. These unique island assets underpin the highly ambitious Islands Growth Deal, which is designed to put the islands at the forefront of the transition to net zero, to strengthen key existing industry sectors and to develop new industries of the future. The projects within the Deal will:
  - Demonstrate how to achieve Government net zero carbon targets and be the first parts of the country to do this.
  - Create internationally significant new port infrastructure that will play an important role in supporting Scotland and the UK to achieve net zero targets.
  - Strengthen the islands' place as unique 'living laboratories' for global innovation in low carbon technologies, wellbeing research and sustainable food production in partnership with their leading universities and research institutes.
  - Showcase the islands' outstanding natural environment, heritage, culture and creativity to the world.
  - Create the foundation for an innovation-focused recovery from the COVID-19 pandemic and support inclusive growth across all the Island communities.
4. The three island groups of Orkney, Outer Hebrides and Shetland share significant opportunities and challenges, which have been approached through the Islands Growth Deal by working together to combine resources, share access to the best subject matter expertise and strengthen local collaborative capacity and capabilities.

5. The Islands Growth Deal programme includes three joint-island innovation-focused proposals in the areas of low carbon technologies, creative industries and wellbeing, and skills and talent attraction. These projects will undertake activity in all three island groups and deliver benefits across all communities. Each island group has responsibility for the coordination of one of these joint programmes, creating strong island-based partnerships between business, academia and research organisations, public agencies and local communities.
6. Whilst there is a history and commitment to cross-island collaboration and shared endeavour, there are also significant differences between each island group and the Islands Growth Deal contains a number of projects that are island-specific and focus on local opportunities and community priorities. While the project investment will be delivered locally, many of these single island projects will deliver outcomes and learning of benefit for all the islands and the partners will seek to maximise this shared value over the period of the Deal.
7. This Heads of Terms document commits the Scottish Government and the UK Government to work collaboratively with the three Island Councils and their partners to deliver a Growth Deal that will help transform their economies. The Scottish Government will invest up to £50 million over 10 years, and the UK Government will invest up to £50 million over 10 years, subject to approval of full business cases for each project outlined in this document.
8. The Islands Growth Deal projects are supported by a wide range of partners from across the public, private and academic sectors who together will invest up to a further £235 million to deliver these projects. This match funding is subject to the development of the full business cases. Contributions will be aligned to shared priorities with both the UK and Scottish Government such as net zero carbon energy and infrastructure, innovation, tourism, skills, creative industries, food and drink, aquaculture and housing. This will result in a Deal worth £335 million, which the partners forecast will create over 1,300 sustainable jobs across the three Island groups.

## THE COMMITMENTS

### Leading the way to a Low Carbon Future

9. The ambition of the islands is to be the first parts of the UK to reach the Governments' net zero carbon emission goals, to be recognised global leaders in the development and adoption of the technologies and processes associated with this transition and to have a thriving low carbon business and research cluster selling products, services, and expertise around the world.
10. All three islands have already demonstrated ground-breaking low carbon innovation and are leaders in community ownership of renewable energy assets. Orkney has developed an international reputation as a centre for zero-carbon energy innovation supported by the European Marine Energy Centre in Stromness and a strong cluster of local business expertise. Orkney and Shetland also have substantial locally based oil and gas related companies with expert local workforces drawn from all three island groups with transferable skills able to support an expanding renewable energy-based economy. Realising their plans as set out in the Islands Growth Deal will mean that all three islands will advance their capacity to provide a substantial part of Scotland's and the UK's future energy requirements.
11. The Islands Growth Deal will build on this strong foundation and deliver a programme of investment across five projects designed to accelerate the islands' transition to net zero. These projects will be supported with investment of up to £27 million from the UK Government and up to £16 million from the Scottish Government, and a further £149 million from the relevant project partners.
12. Central to this programme is the creation of a joint **Islands Centre for Net Zero** project, supporting the energy transition for all three island groups. The Islands Centre for Net Zero project will address the need for fundamental change in how we approach energy transition. While other centres around the world are working on clean energy technologies, the Islands Centre for Net Zero will work from the ground up with local communities and businesses, empowering the islands to navigate pathways to decarbonisation which will deliver:
  - Ten percent average reduction per year in carbon emissions for all three island groups over the next ten years.
  - Sustainable "green" jobs within the islands for 300 people.
  - Eight times the impact from the Islands Growth Deal investment over the longer term through match funding and generation of new revenue streams.
  - Significant added value to other low carbon future projects and other Deal strands, ensuring decarbonisation impact across the whole programme.
13. The Islands Centre for Net Zero project will be supported with joint investment of up to £16.5 million from the UK Government and Scottish Government (UKG £16 million/SG £0.5 million).

14. **The Shetland Clean Energy Project** sets out Shetland's particular ambitions for transforming energy use and calculates that the production of green hydrogen is the preferred way forward to achieve net zero targets. Shetland lies in the windiest marine region in the UK and using its wind resource for green hydrogen production will provide the clean fuel needed, reduce carbon significantly and provide opportunities for business development and skilled islands-based employment.
15. The Shetland Clean Energy project will be supported with investment of up to £5 million as part of the funding for the Islands Centre for Net Zero project.
16. Clean fuels for shipping will be a critical requirement to achieving the UK and Scottish Governments' net zero targets by 2050 and 2045 respectively. In the short term, cleaner fuels are needed to enable shipping to meet emissions regulations set by the International Maritime Organisation (IMO). The **Scapa Flow Future Fuels Hub** project facilitates both of these objectives as well as diversifying and strengthening the local economy and the future of Orkney Harbours.
17. This project will harness investment to consolidate Scapa Flow, Europe's largest natural deep water harbour, as the UK's optimal location and gateway for energy transition and decarbonisation: a centre for international ship-to-ship transfer operations; provision of deep water marine support services for offshore wind farms; the UK hub for storage, supply and bunkering of low and zero carbon fuels; the UK's marine gateway to the Arctic; and the diversification of Flotta Oil Terminal from high carbon fuel reliance to a world-class centre of excellence for the research and development of low and zero carbon fuel technologies.
18. The Scapa Flow Future Fuels Hub project will be supported with investment of up to £6.5 million from the Scottish Government.
19. The Outer Hebrides has one of the strongest and most consistent wind regimes in Europe with real potential to contribute to UK decarbonisation targets. **The Outer Hebrides Energy Hub** builds on this formidable resource by establishing the initial infrastructure necessary to support the production of Green Hydrogen from renewable energy (Onshore and Offshore Wind). The Energy Hub will be based around Stornoway Port Authority's new £50 million Deep Water Terminal and will, in the first instance, supply Green Hydrogen for a 100% conversion of SGN's 1,400 consumer Stornoway Town Centre Gas Network from propane to hydrogen. This Pathfinder project will be developed to be replicable in Hydrogen demand centres across the UK. Hydrogen production at the Energy Hub will be scalable to allow export of hydrogen by sea to identified European markets through conversion to containerised ammonia or methanol or by direct pipeline to demand centres on the west coast Scottish mainland. The Energy Hub will also enable the partial decarbonisation of island liquid fuel storage and its relocation from Stornoway town centre to the Energy Hub.
20. The Outer Hebrides Energy Hub project will be supported with investment of up to £11 million from the UK Government.

21. As the world transitions away from a fossil fuel-based economy, redundant oil and gas platforms will require to be safely and sustainably decommissioned over an extended period. Shetland has been welcoming decommissioning projects since the early 2000's and has a strong reputation in the sector. However, the current water depths at Dales Voe, and all other UK ports is restricting the UK's capability to compete for the larger platforms due to be decommissioned. An ultra-deep water port will increase the opportunity to secure more of the growing decommissioning sector and the developing offshore renewable sector, providing the UK with a capability to match that found overseas. Dales Voe has been identified as the optimal location in the UK for an ultra-deep water decommissioning facility due to its sheltered approach, naturally deep-water channels and its close geographical proximity to both the existing oil and gas infrastructure and the locations that will be used for future offshore wind and low carbon energy sector. **The Dales Voe Ultra-Deep Water Port Project** aims to create the required new facility with a minimum depth of 24 metres.
22. The Dales Voe Ultra-Deep Water Port project will be supported with investment of up to £9 million from the Scottish Government.

### **Supporting Growth and Future Industries**

23. The islands' ambition is to provide a collaborative environment that supports creativity, innovation, growth and productivity improvement within key island industry sectors and to fully exploit the islands' unique assets to create new, high growth sustainable industries of the future.
24. To support this ambition the Islands Growth Deal will build on this strong foundation and deliver a programme of investment across six projects designed to accelerate growth and innovation. These projects are supported with investment of up to £17 million from the Scottish Government and up to £13.5 million from the UK Government, and a further £39 million from the relevant project partners.
25. **The Creative Islands Wellbeing** project aims to establish new island networks of creative practice hubs and wellbeing innovation. This joint island project will work across the three island archipelagos, strengthening the islands' reputation as creative centres of excellence and increasing the sector's economic and social impact. Deal investment will be used to support the development and enhancement of creative infrastructure in Orkney, Shetland and the Outer Hebrides to provide the space required for creative practitioners in the islands. Investment will also focus on research into the links between creativity and wellbeing, support cultural and creative practice development, and international collaboration and knowledge exchange.
26. The Creative Islands Wellbeing Programme also represents a partnership between the islands' creative sector and NHS Orkney, NHS Shetland and the NHS Western Isles, with a proposal for an 'Islands Centre for Creative Ageing' offering an exemplar for researching, piloting and implementing new approaches to healthy ageing that will have resonance and application elsewhere in Scotland and the UK.

27. The Creative Islands Wellbeing project will be supported with joint investment of up to £6.1 million from the Scottish Government and UK Government (SG £3.5 million/UKG £2.6 million).
28. Pre COVID-19, the islands' tourism industry was thriving and growing, attracting over 5% of the total Scottish tourism bed nights and regularly coming out top in international travel polls and awards. A key part of this attraction was the islands' stunning natural and cultural heritage which includes two of Scotland's six UNESCO World Heritage Sites (St Kilda and Heart of Neolithic Orkney) and the UK's only dual UNESCO World Heritage Site (St Kilda).
29. In the Outer Hebrides tourism accounts for around 10% of the local economy and helps to sustain many rural businesses and communities across the islands. Income from the sector has grown from £53 million in 2014 to £65 million in 2017 and was on track to reach £74 million by 2020 prior to the onset of COVID-19. Continued investment in the tourism infrastructure of the islands, providing a variety of rich and memorable experiences, will be vital to maintain and grow the value of the tourism economy.
30. **The Outer Hebrides Destination Development** project will explore a suite of projects that will build on different strengths of the Outer Hebrides' rich environment and cultural heritage. For example, focusing on key aspects of island heritage such as St Kilda, the world renowned Callanish standing stones and experiences based on the history of the islanders.
31. The selected projects are geographically distributed, creating employment opportunities in remote communities and ensuring the benefits of the Outer Hebrides Destination Development investment are shared across the islands.
32. The Outer Hebrides Destination Development project will be supported with joint investment of up to £8 million from the Scottish Government and UK Government (SG £4 million/UKG £4 million).
33. Orkney's tourism economy is founded on the remarkable history and landscape of the islands. At the core of the offer is the Heart of Neolithic Orkney World Heritage Site, a globally important and utterly remarkable collection of ancient monuments and settlements, including the world-famous settlement of Skara Brae and the outstanding Ring of Brodgar, Stones of Stenness and Maeshowe chambered tomb. It is acknowledged that the current visitor experience and offer does not truly engage visitors and fails to make the most of the sites for the tourism industry in Orkney. **The Orkney World Heritage Gateway** project will create a world-leading sustainable tourism offer and transform the visitor experience by:
- Creating a new world class visitor management and experience for the Ring of Brodgar, Stones of Stenness and Maeshowe cluster focused on managing people and vehicle movements, the exploration of place and deepening engagement with the monuments, the landscape and their trove of stories.

- Delivering island-wide digital visitor information and management applications to disperse tourists across the island groups to spread economic opportunity and manage peak season overcrowding. This will improve the visitor experience and crucially, safeguard and improve the quality of islanders' lives and the sensitive natural and cultural heritage of the islands.
- Revitalising the facilities at Skara Brae to complement the Ring of Brodgar, Stones of Stenness and Maeshowe.

34. The Orkney World Heritage Gateway project will be supported with joint investment of up to £6.5 million from the Scottish Government and UK Government (SG £5.5 million/UKG £1 million).

35. The islands are recognised as a source of the highest quality sustainable food products and the Islands Growth Deal seeks to support the sector to expand production and develop new offerings for both local and UK and international markets.

36. **The Orkney Community Vertical Farm** project is focused on agricultural innovation, creating an islands' vertical farm with associated research and development laboratories and business incubation facilities based at the University of the Highlands and Islands Agronomy Institute in Orkney. The project draws on the world-leading technological expertise from Intelligent Growth Solutions and world-class research from the James Hutton Institute, leveraging the funding they have achieved from the Tay Cities Deal and, in so doing, seeking to ensure a multiplier effect for the investment in both deals.

37. The Orkney Community Vertical Farm project will be supported with joint investment of up to £2 million from the Scottish Government and UK Government (UKG £1.5 million/SG £0.5 million).

38. **The Shell-volution** project has been designed as a new and innovative means of enabling expansion in the low carbon and sustainable mussel farming sector in Shetland, and more widely in Scotland. Through a phased programme of research and development, focusing on better ways to farm within the marine environment, small businesses in the sector will be able to share in an anticipated growth in output to 18,000 tonnes by 2037. Productivity and resilience of existing farm sites would increase, and new locations will be developed. Employment that is supported by the sector is also anticipated to broadly double. Consumer markets are considered to have capacity to absorb this gradual increase in production; and mussel processors in Scotland will also benefit from the sustainable growth in farmed production.

39. The Shell-volution project will be supported with investment of up to £4.4 million from the UK Government.

40. The Outer Hebrides has a reputation for providing high quality produce from the primary industries sectors but output and employment from the traditional fishing and farming activities has decreased markedly over time. Recognising the challenges industry, community and public sector partners have collaborated to identify priorities for the sector linked to product diversification, value added and an increased focus on local growing and local markets, supporting these industries adapt to the post-Brexit/ COVID-19 world, and to respond to the longer-term impact of climate change.
41. **The Outer Hebrides Food and Drink Programme** will support specific capital investments agreed as priorities with community landowners, aquaculture and fishing industry representatives:
- Local food hub at Grogarry.
  - Ice plant, chill facilities and other improvements at pier head to facilitate local supply.
  - Community food hub / food growing projects.
42. The Outer Hebrides Food and Drink Programme will be supported with investment of up to £1.5 million from the Scottish Government.
43. Scotland has an ambition to be a major player in the market for small satellite launch, forecast to be worth £25 billion over the next 20 years. The remote locations of the Outer Hebrides and Shetland has provided them with ideal vertical launch sites into sun-synchronous and polar low earth orbits at Scolpaig, North Uist, and Unst, Shetland and which could ensure that Scotland is ideally positioned to capture a major share of this valuable and rapidly developing new market.
44. The Outer Hebrides **Spaceport 1** project is led by a public/private sector consortium which seeks to provide affordable, reliable and safe access to polar and sun-synchronous orbits through commercial vertical launch services situated at Scolpaig, North Uist. Capitalising on the site's prime geographical positioning and the experience, capabilities and infrastructure of the nearby Hebrides Range, Spaceport 1's launch offering will complement the existing launch ecosystem and support the shared ambitions of both the Scottish and UK Governments to be at the forefront of the emerging global commercial space market. Islands Growth Deal investment is expected to support the delivery of sub-orbital activity. This project alongside the Shetland Space Innovation Campus project within the Growth Deal will support the shared ambition to become a leading space nation through the provision of a complementary offering across Scotland's aspiring launch projects as well as supporting the creation of flourishing space ecosystems in and around launch sites that will benefit local communities and the islands region through high skilled jobs and associated economic and societal opportunities.
45. Spaceport 1 project will be supported with investment of up to £1 million from the Scottish Government.

46. The **Shetland Space Innovation Campus** project will build upon the exciting developing space offering across Shetland through the Shetland Space Centre that will host the UK Space Agency's Pathfinder Launch with Lockheed Martin in line with the shared ambitions of both the Scottish and UK Governments. The project will be established at the Ordale Airfield, in Unst, and provide a dedicated commercial development ready campus to accommodate domestic and international companies seeking to undertake associated launch activity as well as support the provision of high quality academic research, innovation and STEM activities that will support a growing space ecosystem on the Island. This project strongly enhances the overarching space proposition for Shetland and provides a key base to support inward investment opportunities as part of the Shetland Island Councils proactive and outward facing Economic Development Strategy. This project alongside the Spaceport 1 project within the Growth Deal will support the shared ambition to become a leading space nation through the provision of a complementary offering across Scotland's aspiring launch projects as well as supporting the creation of flourishing space ecosystems in and around launch sites that will benefit local communities and the islands region through high skilled jobs and associated economic and societal opportunities.
47. The Shetland Space Innovation Campus will be supported with investment of up to £1 million from the Scottish Government.

### **Thriving Sustainable Communities**

48. The islands' ambition is to be recognised for the high quality of life available to all in our communities, offering attractive and affordable places for young people and families to live and realise their ambitions, and where you can live healthily and happily into old age. As a result, there has been a decisive shift towards long-term demographic sustainability.
49. To support this ambition the Islands Growth Deal will invest in projects that will strengthen academic and research facilities in all three islands, support skills development and entrepreneurship and deliver a major place-making project in Lerwick, Shetland. These five projects are supported with investment of up to £17 million from the Scottish Government and up to £9.5 million from the UK Government, and up to a further £47 million from the relevant project partners.
50. **The TalEntEd Islands Programme** will focus on fast-tracking the decarbonisation of the islands by creating opportunities for education, skills, entre and intrapreneurship and commercialisation supporting the increase in sustainable 'green' jobs across all three island groups. The financial investment through the Islands Growth Deal will stimulate activity that will enable further investment and alignment of future resources. Most importantly, it will cement a partnership to better serve the islands.
51. The TalEntEd Islands Programme will help the universities and academic partners on the islands develop new approaches that will be built into long-term provision and aligned to need, while attracting people to stay and come to the islands, responding to the demographic challenges and outmigration of young people, and therefore contributing to their longer-term sustainability.

52. Led by the University of the Highlands and Islands, working with its academic partners and other universities (namely Robert Gordon University and Heriot-Watt University), the TalEntEd Islands Programme will be aligned to the UHI Islands' Strategy and Islands' Forum. Working closely with the Islands' Centre for Net Zero, and other joint and specific Islands Growth Deal projects, it will build the skills and talent pipeline needed, working with national and regional organisations, and paying specific attention to the inequalities arising as a result of COVID-19.
53. The TalEntEd Programme will be supported with joint investment of up to £5.9 million from the Scottish Government and UK Government (SG £4.4 million/UKG £1.5 million).
54. The islands recognise the critical importance of locally based academic and research activities for the vibrancy and long-term sustainability of their economies and aim to strengthen this through a number of Deal investments.
55. **The Orkney Research and Innovation Campus 2 (ORIC 2)** project will contribute to the success of the Islands Growth Deal by creating a physical hub which will host and facilitate key initiatives related to the 'Leading the way to a low carbon future' theme while also providing the necessary space for the continued growth and expansion of the existing Orkney Research and Innovation Campus (ORIC) as a base for academic collaboration.
56. The ORIC2 project will be supported with investment of up to £8 million from the UK Government.
57. **The Shetland Campus Redevelopment** project will make more learning opportunities available to more people in Shetland, as well as the other island groups and the wider University of the Highlands and Islands area and help meet the training and skills development needs of current and emerging local businesses (such as renewables, decommissioning and satellite launching). This will contribute to economic development and inclusive growth in the islands, attracting and retaining young people and new learners to the isles, as well as supporting the zero-carbon economy.
58. The Shetland Campus Redevelopment project will be supported with investment of up to £2 million from the Scottish Government.
59. Similarly, the **Outer Hebrides Campus Redevelopment** project will transform the FE and HE curriculum and training offer for the people of the Outer Hebrides. This investment will enhance and expand the existing facilities and learning technologies at Lews Castle College campuses across the Outer Hebrides (as part of the University of the Highlands and Islands), to create a dynamic learning offer and environment focussed on attracting and retaining a young population to/on the islands, attracting learners into the islands, widening access to its provision, and providing a much-needed skilled workforce for existing and expanding businesses, innovation and research centres.
60. The Outer Hebrides Campus Redevelopment project will be supported with investment of up to £1.5 million from the Scottish Government.

61. The Shetland **Knab Redevelopment** project aims to go beyond creating a simple housing project with ancillary services, by delivering a mixed-use site that embeds living and ageing well, creative innovation, wellbeing and a dynamic use of public space alongside future fit housing that enables a flexible approach to work and life. The development will enhance the existing offer of Lerwick and will provide additional facilities that will support the ambition of Shetland into the future. The development will not only enhance the life of the future residents of the site, but also those who interact with the space both as residents and visitors. It will set an ambitious standard for how Shetland and its communities will develop over the coming decades; ensuring 'People' and 'Place' are at the forefront of all that Shetland builds for its future.
62. The Knab Redevelopment project will be supported with investment of up to £9.1 million from the Scottish Government.

## **GOVERNANCE AND ASSURANCE**

63. Strong and effective leadership and governance is paramount to both successful implementation and in providing assurance to governments, the local authorities and the wider Deal partners. The three island councils will work with both Governments and all other project partners and key stakeholders to ensure delivery of this Deal and adopt an approach to governance that will deliver transformative inclusive economic growth.
64. Local partners will demonstrate the value for money case for each project and programme before funding is made available. As such, all proposals in this document are subject to the approval of full business cases from the relevant Government, or from both Governments in the case of jointly funded projects.
65. Local partners will work with both Governments to develop a Final Deal document, a detailed implementation plan, a governance plan, a financial plan that takes account of affordability over the 10-year lifespan of the Deal, together with monitoring and evaluation frameworks and associated business cases for all projects and/or programmes receiving funding.
66. Local partners will work with both governments to agree a communications strategy and an operating protocol. Both documents will set out how communications about the Islands Growth Deal and its associated activities are taken forward, in a way that meet the needs of the regional partners as well as the Scottish and UK Governments.

**ENDS**