

SOCIAL AUDIT

Loch Fyne Oysters Ltd



Social Accounts

1st July 2007 to 31st August 2008

**Loch Fyne Oysters Ltd
Clachan
Cairndow
Argyll
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01499 600462**

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Abbreviations

ASSG	Association of Scottish Shellfish Growers
DEFRA	Department for Environment, Food and Rural Affairs
ICZM	Inter Coastal Zone Management
LFO	Loch Fyne Oysters Ltd
LFR	Loch Fyne Restaurants
MCS	Marine Conservation Society
MSC	Marine Stewardship Council
SALSA	Safe And Local Supplier Approval
SIP	Share Incentive Plan
SSMG	Scottish Shellfish Marketing Group

1 Introduction

In September 2007, Bruce Davidson Managing Director of Loch Fyne Oysters was approached to take part in a Social Audit Pilot Programme for Scotland. As a long standing Company with strong values centred around the environment and local community, it was agreed that Social Accounting would be a useful vehicle to maintain discipline and rigorously police its performance in these important areas. Due to the size and diversity of the Company, and the fact that these are the first Social Accounts completed by the organisation, to enable us to focus on producing meaningful results, it was felt best to restrict the scope to a manageable but significant section of the business – fish retailed through Loch Fyne Oysters Farm Shop.

The Board committed to the programme in November 2007 and Social Accountants, Anne Stewart and Kerrie Ferguson, were appointed.

Loch Fyne Oysters accounting period runs from 1st July to 30th June each year. However for the 2007/08 social accounting year only this has been extended to finish on 31st August due to the late start of the Social Accounts enabling us to gather the information from Stakeholders for inclusion in the accounts.

2 History and Background

The Organisation

Loch Fyne Oysters Ltd (LFO) was set up in 1978 by founder members, John Noble and Andy Lane and is now celebrating its 30th Anniversary. Originally, an oyster farm the Company branched out into smoked salmon production and opened a small restaurant and shop to retail its products. Over the years the Company grew expanding its existing operations, adding mussel farming in 1998.

From its beginnings in a hut beside the road, the Loch Fyne Farm Shop has grown into a well stocked store selling seafood, meat and dairy produce, jams, preserves, home made cakes, wines, chocolates and a wide range of organic dry goods. Loch Fyne Farm Shop at Cairndow has been running alongside the Oyster Bar since 1988.

Towards the end of the nineties, LFO began to look for partners to develop the restaurants and were joined by two restaurant entrepreneurs, Ian Glyn and Mark Derry. In 1998 Loch Fyne Restaurants (LFR) was founded and today has over 40 restaurants UK wide. Though Loch Fyne Restaurants is owned by Greene King, LFO still has strong links supplying all seafood produce and are joint owners with LFR of Loch Fyne Brand, a company set up to develop and enhance the Loch Fyne brand.

Our customer base is made up of retail and foodservice, export distribution and restaurants with our largest single customer being Loch Fyne Restaurants.

In 2002 the death of one of the founder members, John Noble, prompted a change of ownership. It was necessary to sell the shares and the company was put up for sale. The prospect of selling raised concerns, not least, that of job security for the 100 or so employees. Prospective buyers shown round were clearly set on moving production elsewhere with a strong likelihood that the values and traditions of the business would disappear. With the main focus being to secure employment within the local community, the company looked to employee ownership and Baxi Partnership, a Trust set up to help companies become employee owned, agreed to help with a loan of £2m. Following the buy-out in 2003, half the shares were held permanently in a trust for employees, with the rest available for purchase and distribution among individual employees. The board was restructured to include two directors elected by the workforce, which continues to this day.

Key dates in the Company's history are:-

1978: Johnny Noble and Andy Lane meet and discuss the idea of growing oysters in the loch. Loch Fyne Oysters Ltd is founded.

1979-1980: after several unsuccessful attempts, Gigas oysters are grown in the loch

1982: Loch Fyne smokehouse opens

1988: The Loch Fyne Oyster Bar opens in Cairndow

1990: The first restaurant opens south of the border

1998: Mark Derry and Ian Glyn join the team and launch the Loch Fyne Restaurants business

2002: John Noble dies

2003: Employee buy-out

2004: Loch Fyne Brand founded

2008: Acquisition of Simson's Fisheries by Loch Fyne Oysters

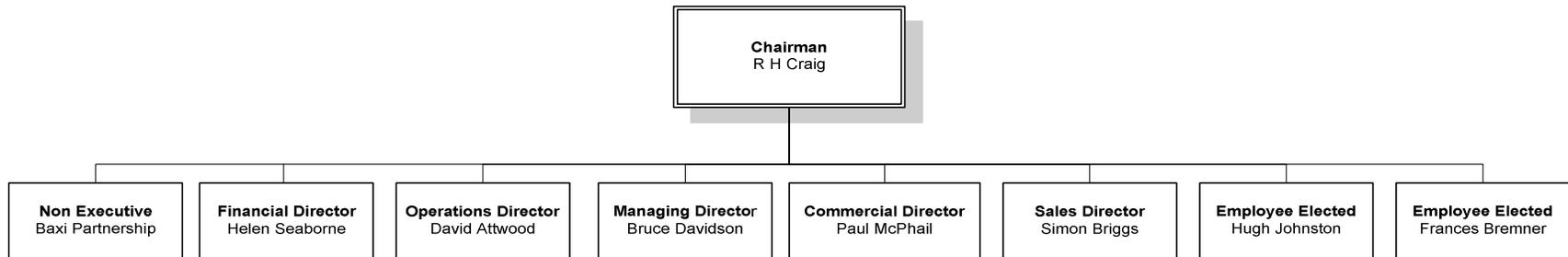
LFO's retail outlets based in Cairndow are heavily dependant on passing tourist trade from outside the local area (i.e. Argyll & Bute District) supplemented by business from the local community.

The Company now has 137 employees, of which 126 are permanent members of staff. All permanent members of staff are shareholders. The Employee Benefit Trust (EBT) holds 50% of the total shares. The balance of shares are kept by the SIP Trust who allocate free shares to staff through an annual distribution of shares. In addition, 32% of permanent staff purchase shares through our SIP Savings Scheme. No non-employee can hold shares and no employee can hold more than 5% of the total shares. Staff are able to sell free shares back to the SIP after five years.

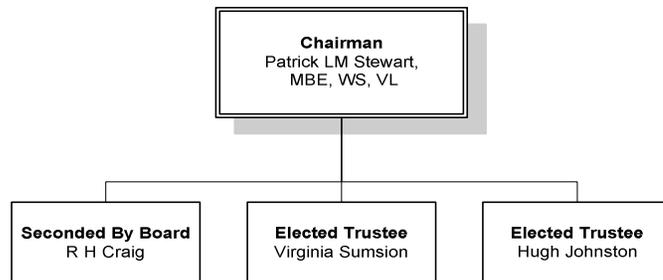
There are four distinct areas within the Company; Operations, Commercial, Retail and Administration as shown in the chart below.



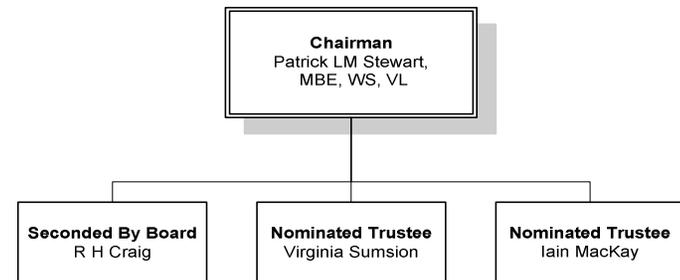
Board of Directors



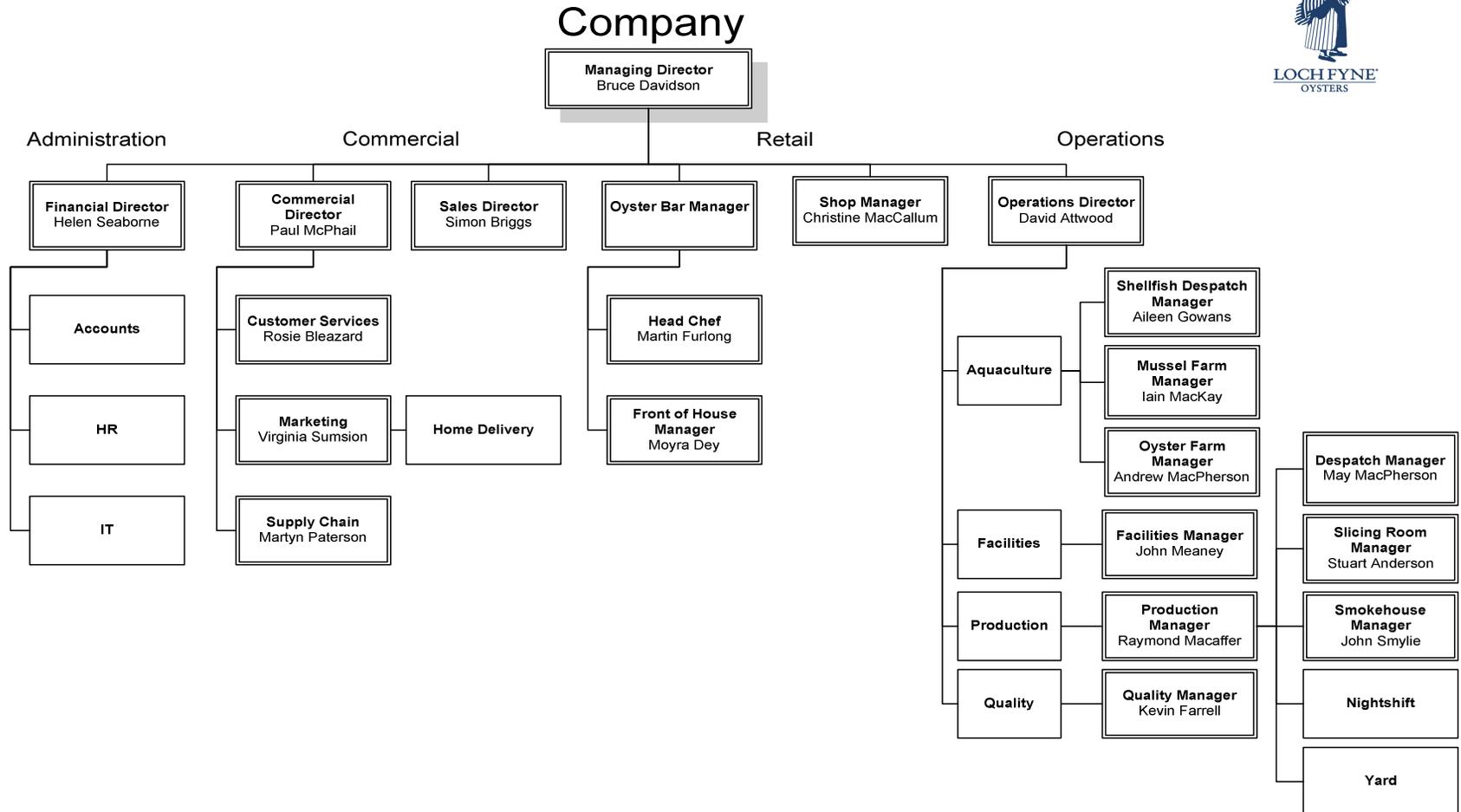
Employee Benefit Trust



Share Incentive Plan Trust



LOCH FYNE OYSTERS LTD - ORGANISATION CHART



3 Mission, Values and Objectives

Over the years LFO's strong ethics and values became embedded in the Company, with ethical and policy statements made through various mediums. At the start of the Social Accounting process these were brought together by the Social Accountants and after consultation with the Board and staff the missions, values and objectives were formed. At the beginning of 2008 these were brought together to form our mission, values and objectives as follows:-

Mission

To build a sustainable, profitable business by providing quality service and produce for our customers; helping to sustain the economy of the local community whilst actively working to ensure that the effect of our activities consistently improves our impact on the environment.

Values

- Customer Focused
- Ethically Sourced
- Environmental Sustainability
- Partnership
- Respect for all

Objectives

- 1) To provide high quality product and service to meet the needs of our customers.
- 2) To develop the business with the flexibility necessary to facilitate multi-dimensional growth and secure financial sustainability.
- 3) To ensure that the environmental impact of business activities are considered and minimised, and not compromised to facilitate growth and development, and to look for ways of making positive improvements.
- 4) To remain employee owned, developing and enhancing the sense of ownership throughout the Company.
- 5) To be a good employer, providing skilled work, fairly rewarded.
- 6) To provide learning and development opportunities for all employees.
- 7) To support the local community.

4 Stakeholders

The identification and consultation of stakeholders is viewed as a continually evolving process and was determined and guided by the relevance to the restricted scope. As the scope expands in future Social Accounting periods, we would expect the key stakeholders to change and expand relative to the scope and changes within the business.

4.1 Establishing Stakeholders

The key stakeholders were identified at the beginning of the social accounting process by the staff through the consideration of the following points;

The provision of goods and suppliers to LFO	(Suppliers)
The provision of goods and services from LFO	(Customers)
Regulatory bodies and processes	(Partners)
Factors which impact upon Loch Fyne Oysters	(Partners)
Factors which Loch Fyne Oysters impacts on	(Community)
Employee Ownership & Organisational structure	(Staff)

This also identified the five main stakeholder groups (shown in brackets).

From the information gathered during this process a stakeholder map tailored to the scope of the social accounts was produced. The map shows consulted stakeholders highlighted in yellow, key stakeholders who were not directly consulted highlighted in green and other stakeholders not consulted are in white. Stakeholders consulted were guided by the relevance to the scope.

4.2 Key Stakeholder consultation.

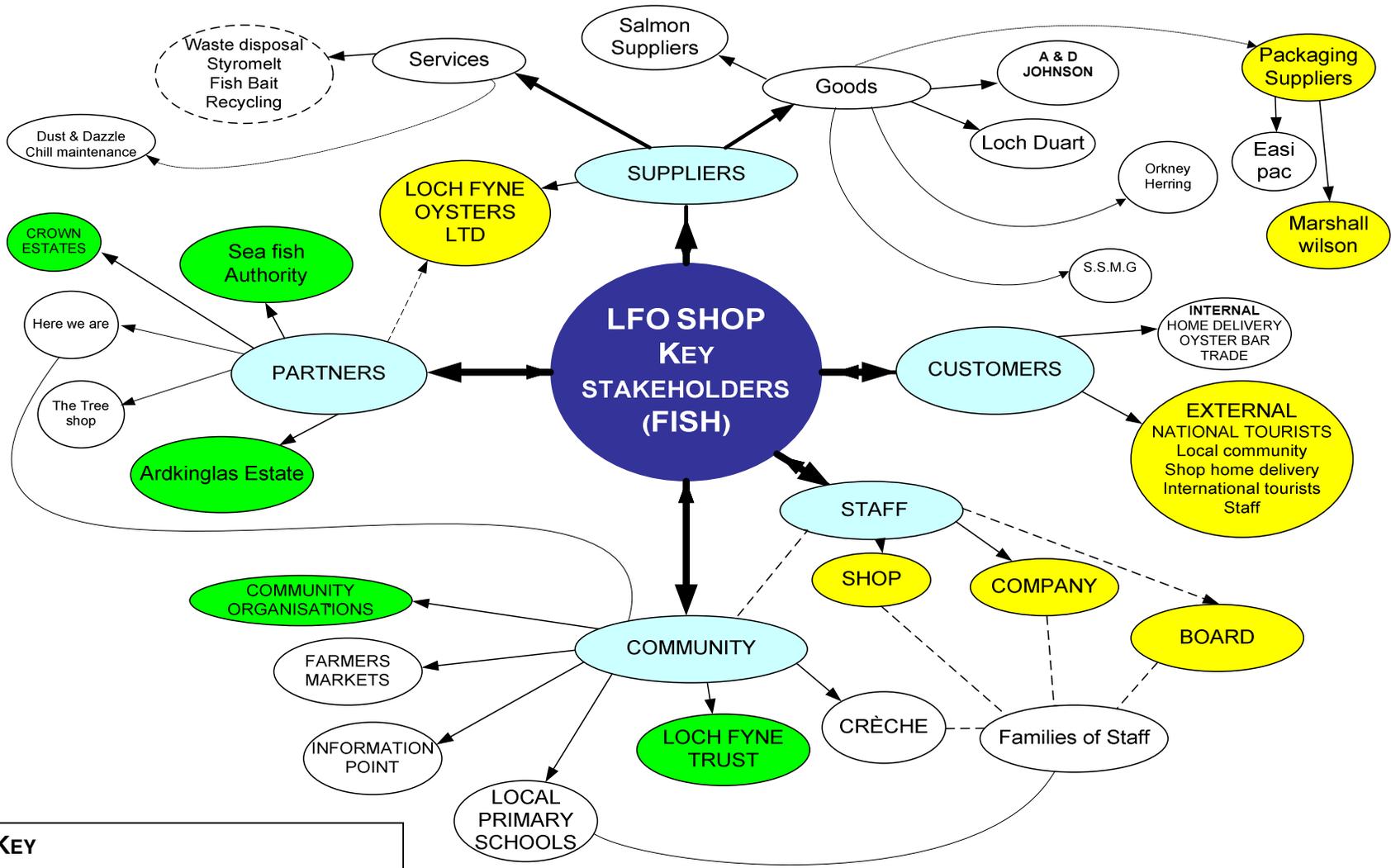
All of the key stakeholders have been identified on the map as this shows that we are aware of their significance and relationship to the organisation even if it has not been possible to consult them during this accounting period.

Three key stakeholder groups, staff, customers and suppliers, were directly consulted however two main groups were omitted from the consultation process, partners and community.

Some suppliers were not consulted directly during this set of accounts. Instead we consulted Loch Fyne Oysters as a supplier and information on suppliers was collated from the existing Supplier Audit returns that have been filed through Loch Fyne Oysters Quality and Supply Chain Departments. A sample of the LFO Farmed Fish Supplier Audit form is shown in Appendix VIII. This approach was adopted amid concerns that independently requesting information from suppliers may negatively affect the response rate of the already established supplier audit structure, which forms a critical component of the Loch Fyne Oysters quality system.

As this is the first accounting period there was insufficient time to co-ordinate the two audits however our future aim is to align Social Accounts with supplier audits and utilise existing supplier audit systems to gather information.

We did not consult our partners because of time constraints and limited resources we did however utilise existing data from both of these sources.



KEY
 Main Stakeholder Groups
 Stakeholders Consulted
 Key Stakeholders Not Consulted

5 Scope and methodology of the social audit

Due to the size and diversity of the Company, and the fact that these are the first Social Accounts completed by the organisation, it was felt best to restrict the scope to a manageable but significant section of the business i.e. fish retailed through Loch Fyne Oysters Farm Shop. This was selected as the source for many of the fish products used in the LFO Farm Shop is common to other areas of the business.

For the purposes of these accounts, 'fish' includes shellfish (aquatic invertebrate animals) and fish (aquatic vertebrate animals).

In addition, it was agreed to focus on only two of our seven objectives:-

- 1) To provide high quality product and service to meet the needs of our customers.
- 3) To ensure that the environmental impact of business activities are considered and minimised, and not compromised to facilitate growth and development, and to look for ways of making positive improvements.

In early 2008, moves were made to acquire Simson's Fisheries, a company based south of London, which would improve the service provided to our customers and increase the capacity for the growth of our business. This resulted in a change of focus within the Company. Due to the increased workloads, further restriction of the scope was agreed upon to cover only farmed fish retailed through Loch Fyne Oysters Farm Shop, which accounted for £290,085 of sales being 64% of total fish sales £451,846 and 28% of total shop sales £1,025,037 during the accounting period.

For the purposes of the audit, Loch Fyne Oysters' Operations will be viewed and treated as a supplier. Any conclusions drawn from the Social Accounting process can have implications for the rest of the business with common suppliers and products used throughout.

Methods used to gather information included surveys, face to face interviews, audits, site visits and extraction of historical data from existing systems in addition to data and information from financial reports, newsletters, awards and their associated standards.

We developed a Shop Research Questionnaire (Appendix I) to gather quantitative data on customer perceptions of the goods and services provided, as well as environmental aspects. These were handed to a random sample of customers by shop staff over a four day period between 1st August and 19th August 2008. On each of these days, samples of shop products were set out for customers to taste and questionnaires were handed to each person who visited the tasting station. During the four day period a total of 950 customers were recorded and of the 146 questionnaires handed out (15% of customers), 109 were returned. In order to encourage a response customers were offered anonymity when completing the forms. Also, customers were incentivised to complete forms with the offer of a 10% discount voucher redeemable in the Shop.

Analysis of the responses is shown as a percentage of the total questionnaires received. Where an answer is only required following a previous response, the figures given are a percentage of total number of previous responses. The responses have been cross referenced to provide greater analytical detail. Thought will be given to asking additional questions on future forms to gain more insight regarding consumer motivation to purchase.

Consultation with six of the fourteen shop staff selected randomly was carried out by Kerrie Ferguson between 4th and 15th August 2008 using semi structured interviews (Appendix II). The interviews were used to establish views on key areas.

Staff appraisals are carried out on an annual basis for all staff in January/February. Customer focus is one of the core competencies every member of staff is measured against. Our standard for Customer Focus is detailed below:-

Customer Focus	<p>Ability to address the interests and concerns of customers, both internal and external.</p> <p><i>Sample Positive Behaviours</i></p> <ul style="list-style-type: none"> ➤ <i>Understands and meets the needs of the customer.</i> ➤ <i>Anticipates customer needs and expectations.</i> ➤ <i>Proactively seeks out information needed to satisfy customers.</i> ➤ <i>Remains professional and helpful with customers.</i>
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The results for Customer Focus were extracted from the appraisals for shop staff who were employed as at January 2008, totalling 11.

Our preference was to consult with partners through face to face interviews however whilst this could not be carried out within our timescale, we have utilised existing data.

Most of the data resources were readily available and simply had to be adapted for social accounting purposes, though data held in some areas was not easily accessible due to confidentiality and similar restrictions.

The level that stakeholders were consulted was dictated by the relevance to the topic.

6 The Report on Performance: Interpretation of Data

The scope of the Social Accounts focussed mainly on the achievement of objectives which incorporated some of the values. Consultation on Mission and all Values will take place in further Social Accounts.

6.1 Values

Customer Focused

The LFO Farm Shop as the original Loch Fyne retail outlet and representative of the Loch Fyne brand is committed to providing the highest levels of customer care and service to every customer. Ensuring that our customers have a positive retail experience is critical to the long term financial viability of our business. We believe that our staff play a key role in the retail experience at LFO.

Customer focus means providing for the customer needs and future wants. Being attentive, helpful and knowledgeable about goods and services we offer. This has been expanded upon in the objectives.

Ethically Sourced

From sustainable sources, using Marine Conservation Society guidelines, produced with respect for animals and the environment. High quality with a fair price paid for the produce. This has been further expanded upon in the following objectives.

Environmental Sustainability

Minimising the impact on the natural environment of the activities which we carry out directly and those carried out indirectly by our suppliers. We continue to support those who most closely share our values. Again, this has been further expanded upon in the following objectives.

Partnership

Partnership involves working with our suppliers, staff, certifying organisations, and local community for the benefit of all. This is achieved through visits between staff from LFO and our suppliers which are reported on in the Company Newsletter an example which can be seen in June 2007 (Appendix XIII). In addition, a Suppliers Conference was held during 2007/08 with 25 of our suppliers attending.

We also work closely with standard setting bodies, most recently with Soil Association in developing an organic standard for shellfish farming.

Partnership with the staff comes through Employee Communication Group meetings held monthly, run by the two employee elected directors. The employee directors also sit on the Board and represent the staff.

Partnership with the community includes the activities of the Loch Fyne Trust, which is funded by LFO and set up for the 'relief of poverty, the advancement of education and the protection of the environment particularly within Scotland and the area around the head of Loch Fyne'. Loch Fyne Trust is referred to in more detail on page 29.

Respect for all

Respect for all has been a core value since the establishment of the Company and applies to animals, people and ecology as reported later in detail.

6.2 Objectives and Activities

6.2.1 To provide high quality product and service to meet the needs of our customers.

Through this objective we aim to ensure that customers receive a high level of customer care and quality of product. All species are sourced from reputable suppliers who can guarantee consistent quality. Service provided to customers covers our range of products, staff knowledge and helpfulness. Also, the provision of, and easy access to, information on products enabling customers to make an informed choice. Meeting our customers' needs now and in the future whilst never compromising our values.

- **Use recognised certification standards where possible**

Of our four suppliers of farmed salmon, three have Freedom Food certification and the fourth has Soil Association Organic certification. The end products of our smoked salmon are also certified Kosher, not mixing dairy and meat, and Parev, containing no dairy or meat, as shown on our product packaging and the Kosher Certificate (Appendix III). The Kosher Certificate was first awarded to LFO over 10 years ago and is renewed annually.

Accreditation/certification

This is done through use of staff site visits, supplier audits and product tastings, setting and following product specifications and following LFO Sustainable Fish Buying Policy, Appendix IX, (this policy covers accreditation and certification). In addition, customer requirements to specific standards as in the case of Kosher certification.

- **Carry out supplier audits**

We rely on the Supplier Approval system to ensure that our suppliers are meeting our expected standards and specifications. The Supplier Approval system has been developed through our Quality Department and can be seen in full in Appendix IV.

The Purchasing Section also conduct Supply Chain Questionnaires (Appendix V). This is a relatively new process which is currently being refined and implemented across our suppliers.

- **Carry out regular product tastings**

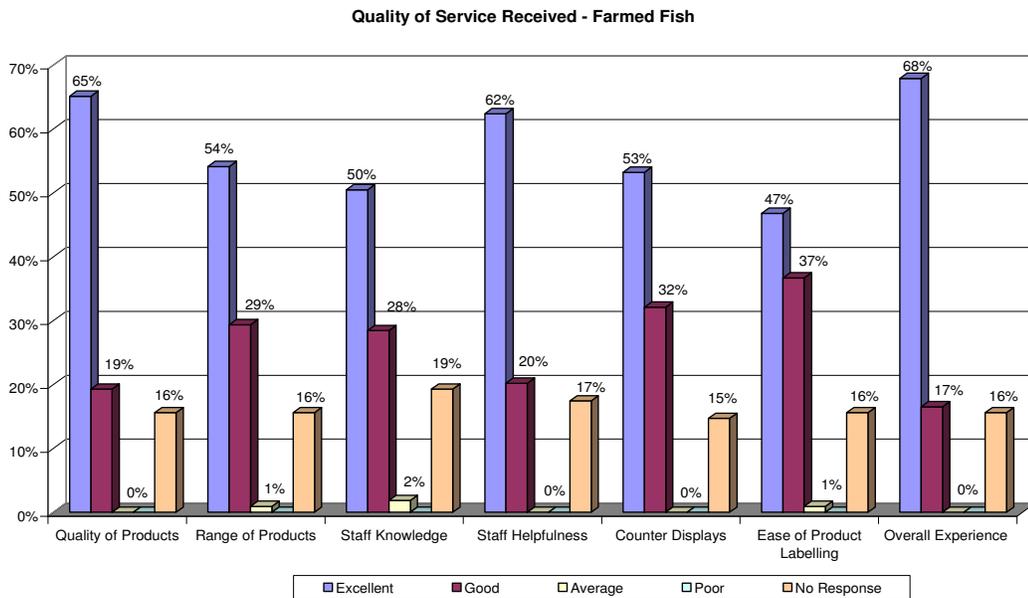
The Quality section conducts regular Tasting panels on all new products and three times a week for existing Smokehouse products. The tastings are carried out to ensure consistency of quality. The panel consists of approved tasters from each of the departments across the Company. The panel results are recorded on a Tasting Record (Appendix VI), and collated by the Quality Department. If the product reaches acceptable standard then the results are communicated by e-mail. If not, further investigation is done and records checked. The findings are discussed with the relevant managers and action agreed. Written evidence of actions implemented to rectify any quality issues identified are retained by the Quality Department.

In addition, the LFO Farm Shop display samples of products on a regular basis so that customers can try before they buy. This happens most days. Sales generated from these tastings are not recorded however it is our intention in future to keep records of products sampled in order to compare sales.

- **Obtain customer feedback**

Customer feedback comes through different channels verbal, written via letter or e-mail and responses to questionnaires. Verbal complaints direct to shop staff are dealt with immediately, however these are not recorded. During the accounting period no known verbal complaints were progressed to a formal written complaint. Written Customer complaints relating to Farmed Fish totalled 2 for the accounting period out of a total of 12 complaints for the same period. This equates to <0.00002% of the 73,298 customer sales in 2007/08. We aim to follow up on all complaints by identifying causes and rectifying them. Positive feedback is usually given verbally by customers, and again is not recorded. It is our future intention to record this feedback for analysis purposes.

The analysis of 109 Customer questionnaires received shows that the overall experience is a positive one. The results from the Shop Research Questionnaire showed that between 86 (78%) and 92 (85%) of customers sampled rated our quality of service as Excellent or Good. Only 2 rated our Staff Knowledge as Average and no-one rated Staff Knowledge or Helpfulness as Poor. Of the 92 that responded, 74 (80%) rated the Overall Experience as Excellent and 18 (20%) rated it as Good.

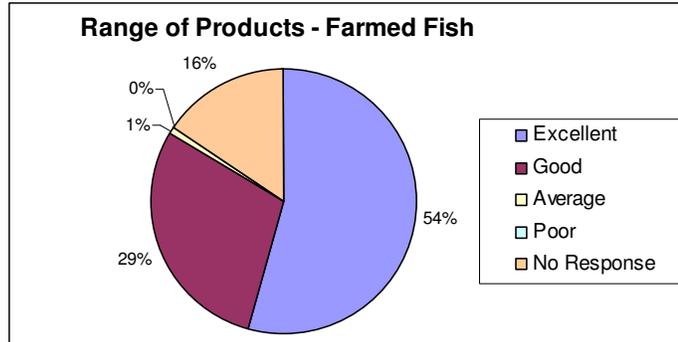


We have improved labelling by increasing the information given to include catch method and location along with any other relevant information such as Freedom Food or Organic. The slates have been made more legible by the use of a single colour – white – on black. Labels have also been introduced on all tasting products, identifying the product and its potential uses. Processed products are fully labelled with ingredients and allergens.

- **Range of products provided**

Products are stocked dependent on availability and this can vary throughout the year due to seasonality and weather dependent harvesting conditions. The spawning times of shellfish such as mussels means that they decline in quality and are subsequently withdrawn from sale unless alternative sources can be

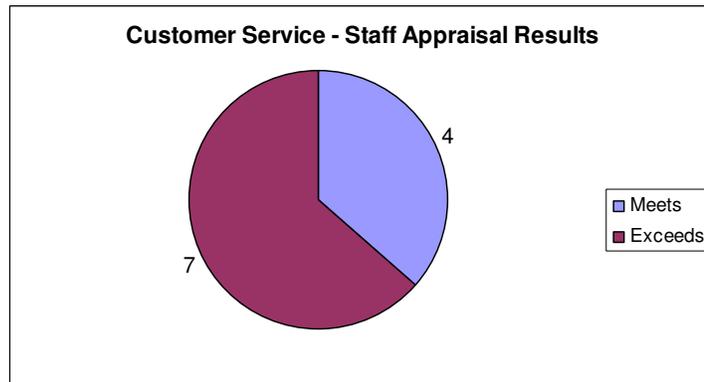
found. In addition, diuretic shellfish poisoning (most commonly found in mussels) and other toxins may result in the withdrawal of shellfish. Samples of shellfish from every batch and the surrounding waters are taken weekly and sent for testing. In addition, the local council test the water regularly.



MSC have a fish rating, see Appendix X. Those with a rating of 5 are fish to avoid and a rating of 1-2 are the most desirable to use. We use this as a guideline to decide at what point we purchase our fish from farmed sources rather than wild stocks. The environmental impact of the best farmed produce can be considered greater than wild caught from sustainable stocks, although this is a matter of some contention and debate. Where fish are listed a rating of 4-5 we do not stock unless from farmed sources.

- **Staff Training**

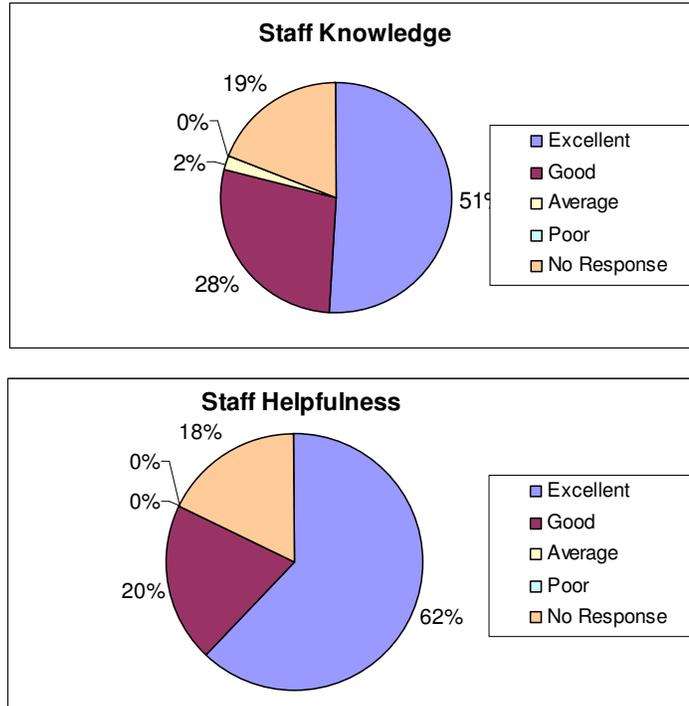
All staff are trained internally on customer service, product knowledge and supplier details over a period of weeks. These sessions are not recorded formally however appraisal results available for 11 of our staff show that the majority deliver a level of customer care which exceeds expectations:



Appraisals are carried out in January/February of each year for all staff. All staff are appraised against objectives set for the preceding 12 months and core competences. A sample of the Appraisal form can be seen in Appendix XV. Dependant on the job role staff may be appraised against some or all of the additional competences. In addition, objectives for the following 12 months are agreed. From the appraisal, training requirements are identified.

Staff site visits to suppliers are an invaluable source of information for our staff which is then passed on to other staff members.

The following shows customer feedback from Shop Research Questionnaires rating the staff product knowledge and helpfulness.



In 86 out of the 109 questionnaires returned, staff knowledge was rated as good to excellent and 90 rated staff helpfulness as good to excellent. Customer service is a core function within the role of all shop staff and training and review is an ongoing activity.

How can we improve:

- Customer Service through continued training & development – increasing product knowledge and improving customer service skills.
- Recording informal staff training and development.
- Be proactive in finding out customers' needs – surveys and increase awareness of markets (visit trade shows)
- Documenting feedback from customers and recording details of tasting sessions.
- Market and educate customers and staff in wider range of acceptable fish.

6.2.2 To ensure that the environmental impact of business activities are considered and minimised, and not compromised to facilitate growth and development, and to look for ways of making positive improvements.

Activities

Loch Fyne started with one inspirational idea – to grow oysters in the clear, fertile waters of Loch Fyne – and has developed into a cluster of businesses whose success is built on an honest approach to superb quality food.

All Loch Fyne businesses abide by the guiding environmental principles established by John Noble and Andy Lane at the outset. The companies work together to ensure that only the very best produce – farmed and fished to the highest quality and environmental standards – reaches the kitchens and plates of our customers.

The development of our Environmental Policy Manual (see Appendix VII) was driven by increasing consumer demand for environmentally friendly product and practices, and the need to document the Company's own ethos. The draft Environmental Policy Manual, which captures existing practices, is currently awaiting further development and approval.

➤ **Philosophy**

**Nach Urramach an Cuan
(How worthy of honour is the sea)**

This Gaelic saying encapsulates the way Loch Fyne Oysters Ltd run our business - enterprise with respect for animals, people and ecology and commitment to independent producers using sustainable methods to produce high quality foods has been the guiding principle behind the growth and development of the shop at Loch Fyne Oysters.

From our consultations and experience it is clear Loch Fyne Oysters shop staff are passionate about our business and passionate about delivering quality and flavour which is demonstrated through the customer feedback as shown above. To achieve this we understand that where we source our produce is key. We work hard to make sure that every oyster we sell, every salmon we prepare and every fish that leaves our shop is cultivated, farmed or fished in accordance with our strict environmental and quality guidelines. (Environmental Policy Manual (Draft) Appendix VII and Sustainable Fish Buying Policy Appendix IX.)

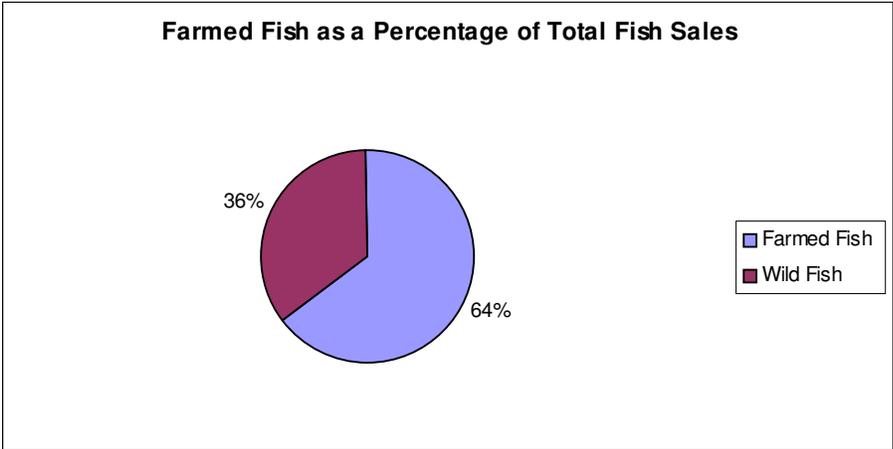
➤ **No compromise**

We take advice from and work in partnership with various marine bodies regarding the fish and seafood we retail including the Marine Conservation Society and Crown Estate.. Where species are not plentiful we will find alternatives and we will not source fish caught by methods deemed to be harmful to the marine ecosystem such as deep-sea trawlers, beam trawlers or industrial long-liners. Whilst we acknowledge that even the highest standards of aquaculture will have some negative environmental impact we consider that so long as every reasonable effort is made to minimise the impact those negatives will be outweighed by the need to preserve species diversity.

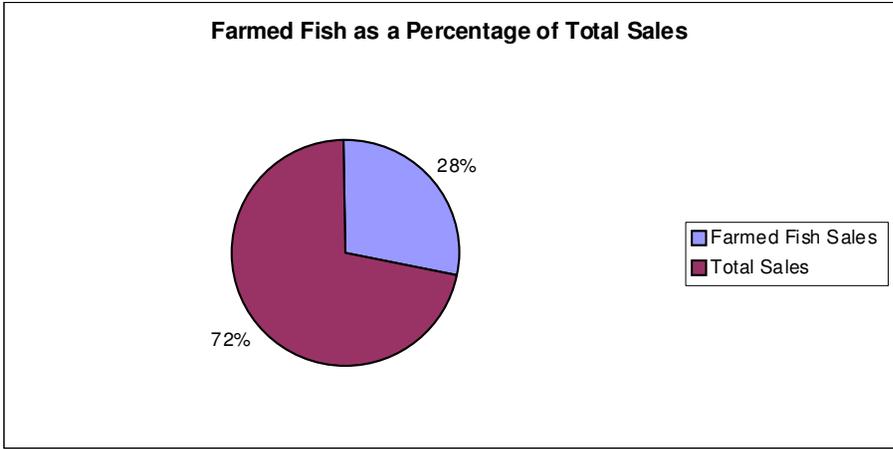
All of our products are sourced according to quality, provenance and sustainability. Despite our remit being retail we will not cater to the demands of our customers where they directly conflict our own values. This can mean that we opt to sell lower margin products such as Organically Farmed Cod over the wild alternative which in retail terms could be more competitively priced whilst still achieving a significantly higher margin.

In addition we have made a conscious decision not to stock the species which appear on MCS to be avoided list. (Appendix X) We also follow their recommendations with regards to sourcing suitable alternatives.

Graph A



Graph B



Graphs A and B show farmed fish sales as a percentage of total fish sales and total product sales. (percentages represent sales value rather than volume as not all products are sold in the same unit i.e. by the pack or by Kg) The table shown in Appendix XI breaks this information down further by species allowing the economic significance of each species to the business to be established. The following product summary provides details of the most significant products and the standards to which they have been farmed or cultivated.

➤ **Purchase of Fish Farmed to LFO Desired Specification – PRODUCT SUMMARY**

Salmon

Many years ago, we reluctantly but advisedly stopped buying wild salmon for the simple reason that it is now an endangered species. Salmon represents approximately 70% of the total sales value of farmed fish retailed through the shop alone. For this reason, we buy salmon that has been farmed with care and caution by small, independent companies: real farmers and lovers of the sea, as dedicated to looking after the local ecology as they are to their valuable stock. Three of our Salmon suppliers has been awarded the RSPCA Freedom Food Standard and one has Soil Association Organic certification.

Loch Duart, run by Nick Joy and Andy Bing, has been our favoured supplier for some years. They were the first salmon farmers to work with the RSPCA and to gain Freedom Foods accreditation (Appendix XII), and have worked tirelessly to maintain and even improve their local marine biodiversity and the viability of their local community. The efforts made by Loch Duart were also recognised at the 2008 Crown Estate Aquaculture awards.

We also have strong ties with Wester Ross Salmon, led by Gilpin Bradley, another forward-thinking independent and the second producer, behind Loch Duart, to gain Freedom Foods status. Wester Ross are also employee owned which strengthens our bond with them.

Salmac 20 years – provide farmed salmon – has Freedom Food accreditation. Based in Aberdeen. Associated since 1999

Our organic salmon comes from Balta in the Shetland Isles. The Soil Association organic standard has been constantly evolving over the years, and we are now seeing the results in some very high-quality fish. There is however continuing controversy over Salmon farming standards and it should be noted that whilst farming to organic standards has environmental benefits its remit does not extend to the welfare of the species being farmed.

Loch Fyne Oysters strives to support the dedicated small local salmon farmer, wherever possible, however in this instance the environmental and welfare standards achieved by each Salmon farm are more significant than its geographic location (as long as it is Scottish). In prioritising our principles in this way the transport carbon footprint of some of our products is increased and this is likely to remain the case unless local industries change their practices in line with our ethics.

Shellfish

The origins of the Loch Fyne Oysters retail outlet are core to shellfish sales. Today shellfish represent a further 20% of the total farmed fish sales by value and remain some of our signature products.

Oysters

Our oysters are grown naturally, on the shore at Ardkinglas at the head of Loch Fyne, and by our partner growers in Argyll, the Islands and Ireland. All of the Oysters retailed by Loch Fyne Oysters Ltd undergo depuration and processing at the Loch Fyne Oyster Farm

Different sites have their peak seasons at different times of the year. Ardkinglas oysters are at their best from spring until early winter, when they can lose condition as high rainfall floods into the loch. In the Islands, by contrast, higher salinity helps to hold condition in the winter but the stock can become too 'fat' in the summer. So a cyclical movement of harvesting sites brings consistency while preserving the subtle changes of taste that go along with each season.

Our island oysters come from Andy Abrahams, who grows his shellfish on the strand on Colonsay. We also take Tony Archibald's oysters, from his site on the shore at Loch Grunart on Islay. Artisans of the sea in a modern

age, Loch Fyne goes to great lengths to establish relationships with such partners.

At all our chosen sites, the oysters feed entirely naturally on plankton. There is no artificial input, of feed or anything else, at any stage. This is an entirely sustainable activity.

CREAM OF MARINE AQUACULTURE INDUSTRY RECOGNISED

27 June 2008

The top performers in one of Scotland's flagship industries were honoured last night (26 June) at The Crown Estate Marine Aquaculture Awards.

The awards reward innovation and best practice in Scottish aquaculture and recognise operators who employ the highest standards of husbandry; offer innovative training programmes; support local communities; and manage their businesses with a high level of environmental awareness.

Loch Fyne Oysters took one of the night's top honours with the award of Marine Aquaculture Company of the Year

Alex Adrian, Offshore Operations Manager for Scotland at The Crown Estate, said: "The Crown Estate was delighted to build on the success of its awards for the salmon farming industry and extend the scheme to include the whole of Scotland's marine aquaculture sector.

"We certainly weren't disappointed with the extremely high standard of entries from across the industry which made it clear that Scotland continues to lead the way for best practice and innovation in aquaculture.

"Our judges were extremely impressed with the calibre of the businesses at the heart of the industry and the world-class products they produce."

The judges were Peter Dryburgh, until recently Director of NAFC Marine Centre; Dennis Overton, Managing Director of Aquascot; Martin Gill, Managing Director of Food Certification Scotland; Professor Phil Thomas, Chairman of the Scottish Aquaculture Code of Good Practice Management Committee; and Dr Carolyn Heeps (Chair), Head of Marine Policy, Science and Sustainable Development at The Crown Estate.

Source: www.thecrownestate.co.uk/newscontent/92-marine-aquaculture-awards-2008-2.htm

Mussels

Our mussels are reared on ropes near the loch's headwaters at Ardkinglas, and by our partner growers in Argyll, the Islands and Shetland. The prime season at Ardkinglas runs from October to May, after which the mussel meat shrinks after spawning and does not fully recover until the autumn. Further out to sea in the Gulf Stream, recovery time after spawning is much quicker. This allows us to supply really good mussels throughout the summer in most years, until the loch season resumes in the autumn.

The mussels' growing cycle begins when wild mussel spat settles on our ropes in the springtime, growing naturally to market size over a period of 24 to 30 months. We have 12 double 'headropes' strung out at Ardkinglas, each 2.5cm thick and 200m long. 1,000 ropes, 1cm thick and 10m long, are strung from each headrope in late March and early April, weighted with a half brick. By June, the only evidence that mussels are forming is a sandy texture to the surface of the ropes: this is made up of many thousands of mussel spat.

A month later, they will have turned black and covered the rope to the thickness of an arm: by the end of August, they will sit as thick as a man's thigh. At maturity, we have almost 70 miles of rope, covered in columns of mussels as wide and round as a dinner plate, and grown totally naturally. In spite of the scale of the operation, there is little to see from the surface. The farm occupies just a tiny space in the loch and provides a wonderful floating habitat for birds, fish and mammals.

Other Fish

Cod, Sea trout, Rainbow trout, Arctic Char and Halibut comprise the remaining 10% of farmed fish sales by value. Both the Cod and Sea trout are farmed to Soil Association Organic Standards. The remaining products Arctic Char, Halibut and Rainbow trout are not farmed to any specific additional standards over and above those expected of all fisheries. The Loch Fyne supplier audit and supply chain systems alongside the staff site visits (Appendix XIII), which staff from throughout the business are encouraged to participate in, provide the necessary assurance that all of the suppliers mentioned in this section employ exemplary practices and comply with the expectations outlined in the Fish Buying Policy (see Appendix IX).

➤ **Supplier Audit and Quality System.**

Below is a summary of the Supplier Approval System which is implemented against all purchases. The full system is detailed in Appendix IV.

Outline

- • Maintaining Supplier Sustainability – introduction to approval process
- • Fish Trading Policy Document -
- • Supplier Approval Procedure
- • Farmed fish supplier form
- • Farmed fish specification form
- • Landed Catch audit form
- • Landed catch specification
- • Distributors audit form
- • Packaging supplier specification

Maintaining Supplier Sustainability

The supplier approval system was initially developed to address the food safety requirements by auditing supply chains to ensure that adequate standards were met. Additionally, compliance checks of companies and products are verified against relevant certification schemes under which Loch Fyne Oyster products are marketed. (MSC, MCS, Soil Association, SALSA, Slow Food, Freedom Food)

Due to the range of small businesses supplying Loch Fyne Oysters, it quickly became necessary to tailor the audit forms to different business categories, rather than using the standard generic audit form. The benefits of this have been an audit return rate in excess of 97% and an information exchange between supplier and customer, raising awareness of each others business needs.

This exchange and the adoption of new requirements from our customers into our audit process ensures that each year the system evolves and aids the communication of standards and expectations through the whole supply chain. This communication is an important part of the process as it provides the incentive to improve standards while realising the cost implication and potential financial gain.

The pressure being applied to food chains by the major multiples focusing on provenance is causing concern with fish feed sourcing, as species further down the food chain are being placed at risk. Unfortunately, the media only tend to focus on the stocks of consumable fish species, which allows the large organisations to market their activities in a positive way, without qualifying the volumetric impact they are likely to cause.

This has led us to a position where to differentiate our business it is essential that we understand and communicate the facts to our customers and then declare how we intend to live by them, by defining this in the form of a fish policy.

Fish Trading Policy Document

Over a five year period this has developed to include the provenance of the primary ingredients, reduce the use of unnecessary additives and to assess the environmental impact of supplier's activities. This year with the acquisition of a white fish business, it became necessary to compile a Fish Trading Policy Document as a guideline to our purchasing department and customers of the ethical standards we are now striving to achieve.

In 2009 the intention is to create two further policy documents for Agriculture, which will be based on Soil Association Guidelines and Additives. While our own manufactured products have no additives, branded products have been "cleaned up" and work has now extended to our traded goods, to ensure that other manufacturers' goods that we trade meet our customers expectation of the brand.

Supplier Approval Procedure

Suppliers are all risk rated and dependent on this their audit interval and audit method is determined. High Risk Suppliers are annual and tend to be the main supply group providing ingredients to the Smokehouse and Aquaculture. High risk supplier goods and branded goods also come into this category. High risk audit tend to be formal site audits.

The initial audit is conducted through a tailored fact find, comprising of a supplier audit form and a product specification form, of which the following is a selection (Appendix VIII): -

- Farmed Fish
- Landed Catch
- Dairy / Cheese
- Shellfish
- Packaging
- Freight

The audit packs are now breaking down to a modular format so that new business sector audit packs can be compiled more quickly and the different aspects of the audit can be updated more easily. The modules are: -

- Food Safety (business specific).
- Provenance extending back to feedstuffs / broodstock.
- Animal husbandry, which is being developed for fowl in particular.
- Environmental – vehicles / fuel / energy
- Packaging waste minimisation

The supplier Approval system outlines the process in detail and is audited by the British Retail Consortium on an annual basis.

➤ **Environmental impact minimised**

In addition to the work, which has been undertaken to ensure that the products, which we stock, are sourced responsibly, we have also begun to review our product packaging although at this stage there is little quantitative information available. Our main achievements include:

- Minimise use of packaging. The shop staff have been actively trying to reduce the number of carrier bags which are being given out to customers by asking if customers require a bag. This has met with mixed success as much of our trade is tourist based and feedback from staff has shown that our customers want our branded bags as part of the gift that they are buying and not just as a means for carrying goods.
- We have reduced the volume of our packaging by reducing the size of the bags, which we use. We are also in the process of changing our plastic carrier bags over in favour of biodegradable carriers. This will not come into full effect until our existing stock of bags has been used up.
- The shop staff have begun to trial the use of a range of biodegradable and recyclable packaging with mixed results. The plastic picnic cutlery which is offered to customers has been replaced with a wooden alternative from sustainable sources and has proved a success whilst the potato starch counter bags trialled at the same time have been found not to be fit for purpose.
- Polystyrene has always been one of the most difficult packaging materials to dispose of which prompted LFO to source a Styromelter for recycling polystyrene boxes. In simplistic terms the Styromelt works by heating and melting down old polystyrene until only a hardened resin block remains. The blocks are then collected recycled into a range of products including patio furniture. An additional benefit of the Styromelt is that it significantly reduces the number of skips required to dispose of the waste.
- The majority of fish waste produced by Loch Fyne Oysters is collected for use as fishing bait, fertiliser or for use in the production of animal feed stuffs

The use and disposal of packaging material is an issue on which we are making significant progress but also one on which considerable progress is yet to be made.

➤ **Look for ways of positive improvements**

LFO works with various bodies to develop standards and have a direct impact on policies and actions undertaken.

Organic shellfish standard announced by Soil Association

PRESS RELEASE 06/11/2007 (version 1)

Consumers will soon, for the first time, see the familiar Soil Association organic logo on one of our most nutritious and sustainable food products. Farmed shellfish - such as mussels, scallops, oysters and clams - are about to be certified organic for the first time in the UK.

In response to increasing demand from shellfish growers, the Soil Association has developed an organic standard for the certification of bivalve shellfish production. Shellfish growers from Shetland to the Channel Isles wanted the Soil Association standard as a guarantee to consumers of high quality. The Soil Association also wanted to recognise the inherently organic nature of farmed shellfish.

The Soil Association's bivalve shellfish standard was considered by the Government's Advisory Committee on Organic Standards (ACOS) last month - and was officially recognised by the Government (Defra) soon after. This gives the green light for certification to commence.

Hugh Raven, Soil Association Scotland's director said: *'Shellfish are among the healthiest and most sustainable foods. Those produced in the UK are among the best in the world. Our shellfish growers are some of this country's most innovative food producers - and given the benign nature of high-quality shellfish production, they're a natural fit with organic certification.'*

Peter Bridson, manager of the Soil Association's work on aquaculture, said: *"Shellfish farming is often seen as being inherently organic. Organic certification will recognise this and reassure consumers that the shellfish they are buying have been grown to the highest standards. The standards require a greater understanding of site characteristics to ensure no significant negative impacts on the surrounding environment: wastes must be re-used and recycled wherever possible, and harvesting must be environmentally-friendly - avoiding dredging for scallops, for example."*

Hugh Raven added: *"The Soil Association has always insisted we would develop an organic shellfish standard only if we were specifically asked by shellfish growers or organic consumers - which we were. At the moment there are relatively minor differences between many small conventional shellfish producers and those who will shortly be seeking organic certification. For how long this will remain the case - as production scale increases and new technologies emerge - remains to be seen."*

The development of the Soil Association's organic standard has attracted support from two of the UK's leading shellfish producers, Loch Fyne Oysters and Blueshell Mussels.

Bruce Davidson, Managing Director of Loch Fyne Oysters said: *"Loch Fyne bases its production on its core values of provenance, quality and sustainability. As these are echoed in the standards adopted by the Soil Association, it is a natural fit for our company to support the new accreditations. It will also help ensure that we can protect our environment in the West Coast of Scotland on which we rely to produce exceptional shellfish."*

Michael Laurenson, Managing Director of Blueshell Mussels, and chairman of the Scottish Shellfish Marketing Group (SSMG), said: *"Consumers are becoming increasingly aware of the freshness and quality of their food, and organic certification can play a big part in reassuring consumers that their food is free of anything artificial."*

"Consumers increasingly recognise that Scottish shellfish is some of the freshest, most natural food available - mussels are currently enjoying a boom time with sales up by 20%. The Scottish shellfish industry works hard to maintain its high standards and we welcome the Soil Association's development of organic certification for the industry."

Source: www.soilassociation.org/web/sa/saweb.nsf

- LFO supplier works with Inter Coastal Zone Management (ICZM)

ICZM is a process that seeks to integrate the different policies and management actions that have an effect on the coast, and at the same time bring together the full range of stakeholders to inform, support and implement these policies and actions in a coordinated and transparent process.

Background to Loch Fyne Integrated Coastal Zone Management Plan

Background

The coastal area of Argyll and Bute is exceptional and is one of our prime assets. It provides a unique resource from which present and future economic, social, and environmental well-being can be derived. It is a living and working environment, and home to a large proportion of Argyll and Bute's population, and hosts a great diversity of industrial and recreational activities, each playing an important role in the area's economy. The Council recognises that the quality and diversity of the coastal and inshore waters is one of our prime assets which requires protection and wise management.

Planning and decision-making to date has been very sectoral with little joined-up thinking or consideration of other users of the area. Given the recent development pressures on Argyll's coastal areas and the competition for space between sectors such as fishing, aquaculture, recreation and tourism, there is a need for a more integrated approach to deliver the sustainable use of our marine resources. There is also a need to take fuller account of the socio-economic characteristics of the coastal area and provide a framework for the promotion of local economic development.

Integrated Coastal Zone Management (ICZM) is a process by which these issues can be addressed. The objective of ICZM is to establish sustainable levels of economic and social activity in our coastal areas while protecting the environment. It brings together all those involved in the development, management and use of the coast within a framework that facilitates the integration of their interests and responsibilities.

The Argyll and Bute Structure Plan 2002 outlines the Council's objectives for coastal planning and emphasises the necessity of working with all the relevant sectors to fully harness the productive capacity of the marine and coastal areas whilst safeguarding its unique environmental qualities through sustainable development. The development of an ICZM plan for Loch Fyne is a means of accomplishing this balance for this significant marine area.

In addition policy PL AQUA 1 of the modified Finalised Draft Local Plan recognises the potential of the Councils evolving ICZM process to further inform and direct the assessment of aquaculture development within our area. With the transfer of planning powers in respect of aquaculture from the Crown Estate to the Local Planning Authorities these ICZM plans will provide a development framework to better regulate and promote aquaculture development to ensure that it reflects local community views, avoids conflict with other water users and respects sustainability principles.

Aims of the ICZM project

To develop a coastal zone management plan with broad community input and support, which will guide and advise local authority planners, regulators and stakeholders on future development, and secure the long-term sustainable use of the marine resources within Loch Fyne.

The plan has been designed to complement Argyll & Bute Council's Development Plan (Structure and Local Plan) and will assist decision-making in relation to development proposals, help minimise conflicts of interest and guide future investment.

Given the Council's new responsibilities for aquaculture, the plan focuses, in particular on developing policies to help guide future aquaculture development

to appropriate areas by taking account of other activities and environmental sensitivities.

The Loch Fyne ICZM plan seeks to complement current initiatives e.g. The Strategic Framework for Scottish Aquaculture, which provides an overarching view and national agenda for action; the Scottish Executive led group on the Location and Relocation of Fish Farms; and the Tripartite Working Group., by providing a local overview which takes account of the full range of interests present in the project area.

In addition to supplementary planning guidance for aquaculture development the plan identifies potential conflicts of interest between activities and highlight broader issues for the attention of the relevant agencies in the form of recommendations.

Plan development process

In summary, the development of the Loch Fyne ICZM plan has involved the following:

- Identification and contact with key stakeholders in Loch Fyne.
- Establishment of a fluid stakeholder group.
- Collection of available spatial data from regulators, local authority and scientific sources.
- Assessment of use of marine and coastal resources in the area and identification of management issues through a series of
 - open evenings and stakeholder discussions.
 - Identification of how activities interact with one another.
 - Identification of existing local management agreements/ procedures.
 - Identification of future development opportunities and collaborations between stakeholders.
- Identification of distinctive and coherent marine planning areas using spatial information, GIS queries and through stakeholder consultation.
- Landscape/Seascape capacity study for Aquaculture
- Development of planning guidance and map-based marine spatial plan to guide future aquaculture development.

The entire process has involved consultation with local communities, stakeholders, and relevant and competent authorities through public meetings, one to one meetings and correspondence.

A group with a broad community and stakeholder composition has been kept informed of progress and invited to attend stakeholder meetings. Information, agreements and recommendations from the group have been fed into the development of this Plan and this process will continue to be guided by stakeholders and administered by Argyll and Bute Council's Marine and Coastal Development Unit.

Plan contents

The plan will comprise the following main sections:

1. *Site Description* - Geology, Oceanography and Biology
2. *Current loch activities and interests* (e.g. recreation, aquaculture, fishing, wildlife conservation) This section will provide background information on each activity, including socio-economic importance, potential impacts, future development, issues, existing management measures and recommendations.
3. *Policy Zone and Planning Policy Development*
4. *Development Policies and the Marine Spatial Plan for Aquaculture*
5. *Development Opportunities*

Policy Zone and Planning Policy Development

Coastal planning policy zones have been determined for Loch Fyne, based on landscape, coastal characteristics, settlements, wildlife interests and current marine activities.

A clear methodology has been developed to determine development potential for aquaculture in each policy zone. There are three components to this:

- 1) A marine spatial planning process has been carried out on the spatial information supplied by stakeholders and regulators. Activities, and points of interest in Loch Fyne such as settlements, wild fish interests, existing fin and shellfish farms, wildlife interests, dive sites, anchorages have all been mapped for each policy zone. Field assessments have been carried out to verify this information.
- 2) For each policy zone the compatibility of aquaculture development is then assessed against a number of criteria. These criteria are based on the Council's Local Plan policy and consider such things as visual amenity, wildlife interests, recreational interests, navigation, historical and archaeological interests and any conservation designations.
- 3) Finally a landscape/seascape capacity analysis has been carried out in Loch Fyne which considers the capacity for development in relation to the surroundings. Consideration has been given to the type of development and appropriate scales of development within given areas of the loch.

By process of elimination, and taking into account the physical attributes necessary to establish aquaculture operations, areas which may be appropriate for new or modification of existing developments are identified, as are areas where development is not appropriate.

Strengths, Weaknesses, Opportunities and Constraints to development are identified, which inform the development policies for each zone. The output from the combination of all three components of this methodology should provide robust guidance for both planners and developers on future aquaculture development.

Development Policies and the Marine Spatial Plan for Aquaculture

For each policy zone development policies have been produced for:

- Marine Finfish Development – Salmon, Cod, Halibut
- Marine Shellfish Development – Mussels, Scallops, Oysters
- Onshore Aquaculture-related Development – shorebases, hatcheries etc

Policies take account of all information gathered for each policy area and a justification is provided for each policy. If policies are in favour of new development or expansion of existing sites, then guidance on the location and scale of potential development is given, based on capacity of the landscape/seascape sensitivity and other interests.

Finally the ICZM process identifies relevant individuals and organisations that potential developers and Argyll and Bute Council planning officers should consult in addition to the statutory consultees, during development scoping and assessment of planning applications.

Development opportunities

This section highlights development opportunities that have been identified through stakeholder consultation and includes opportunities such as improvements to existing coastal infrastructure for recreational boating, new pontoons and visitor moorings for sailing as identified in the 'Sail West' project and the potential for scallop ranching.

Relevant Structure and Local Plan policies will be identified for the different development types and where appropriate, strengths and weaknesses/constraints to development. Links will also be made to possible collaborations between stakeholders and available funding streams.

➤ **How can we improve?**

Since its infancy Loch Fyne Oysters has sought to be ahead of the game with regards to its environmental policies and ethics and has been fortunate enough to be in the position to work with others to establish standards, which will benefit producers and the environment alike. .

In order to be able to comment more fully on the impact Loch Fyne Oysters is having on the environment it is necessary to quantify several key areas including

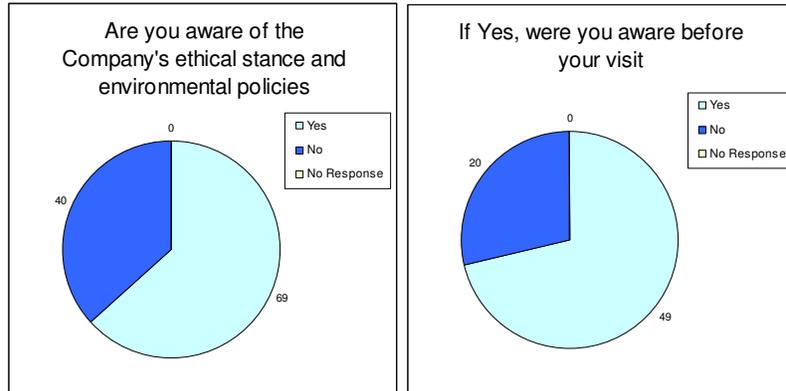
- Carbon Emissions
- Recycling
- Energy Efficiency
- Water consumption
- Waste management

This will enable us to monitor our success in these areas and develop a clear understanding of our current situation. Progress in this area will ultimately have a positive effect and add to our achievements in other areas.

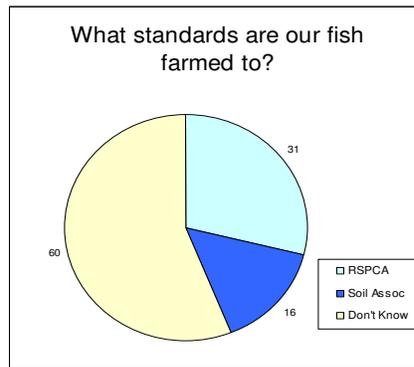
7 Other Stakeholder Views

Customers

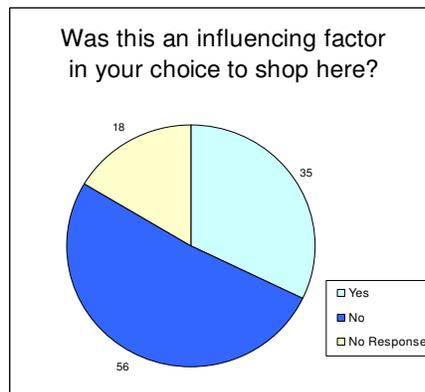
When consulting our customers we also asked for their views on our environmental stance. Of the 109 that responded, 69 (63%) were aware of the Company's policies of which 20 (29%) had not been aware prior to their visit to LFO, which suggests that our in-house marketing information and displays are being noticed.



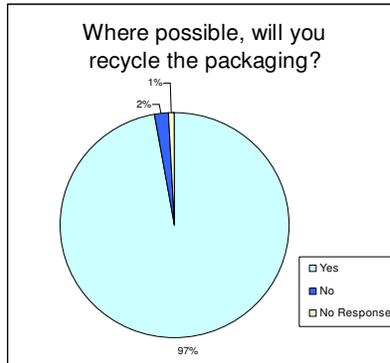
However, most people were unaware of the actual standards our fish are farmed to showing that there is scope to educate and increase people's knowledge in this area.



Surprisingly, for the majority of people (51%) our environmental and ethical policies were not a factor in their decision to buy. This perhaps is a result of our identity as a tourist location. Future surveys could focus on reasons for purchase so we can more closely identify the factors that influence our customer spend.



Finally, we asked customers about their recycling habits and 106 - 97% - said they would recycle where possible. If we are able to increase the recyclability of our packaging, then the evidence is this would have an impact given our customers' willingness to recycle.



Full details of the customer questionnaire responses are available in Appendix XIV.

Staff

Staff interviews took place during August 2008. Of those questioned, all stated that flexibility of working hours, employee ownership and the environment were important factors for them in working at LFO. However, whilst all felt the environmental aspect is important most had little knowledge of LFO's impact in this respect but hoped that it is minimal. This reflects the need to better document, record and communicate the non-commercial aspects of our business. Staff will be a key stakeholder to consult in future accounting cycles.

Staff Quote

"Our policies attracted me to this place. It was a factor as I have strong views on the use of private capital (large corporations) and how it is used. I choose to work here rather than a remote unresponsive Company".

Staff Quote

"Because people know we care, I think a lot about it. We've got to think about the future or there will be nothing left. I've got a grandchild coming. I hope there will still be fish in the sea."

8 Social and Economic impacts

At this stage in the social accounting cycle we are not in a position to quantify the economic impact Loch Fyne Oysters is having on the its Stakeholders (Customers, Partners, Staff, Suppliers, and Community). We have however attempted to outline a selection of the main activities, which are under taken by Loch Fyne Oysters, which exemplify the relationship, which exists between LFO, the local community and environment, and the inferences, which can be drawn from them.

Activities, which can be interpreted as having a positive social and economic impact:

The Loch Fyne Trust

The Board of Loch Fyne Oysters Ltd set up a charitable trust , Loch Fyne Trust (LFOT), in September 2000 expressly for the 'relief of poverty, the advancement of education and the protection of the environment particularly within Scotland and the area around the head of Loch Fyne'.

In 2003 LFOT amalgamated with the Loch Fyne Marine Trust which had been running for nearly ten years and whose remit was to protect and enhance the marine environment of Loch Fyne. The merger took place so as to avoid duplication of effort and to maximise effectiveness.

The Trustees of the Loch Fyne Trust are:

- Bruce Davidson
- Virginia Sumsion (Chairperson)
- May MacPherson
- Helen Seaborne

Ideas for projects are submitted to the trustees and funding is awarded based on the merit of the proposal.

Income

Income for the trust is from a donation by LFO of 3% on all Loch Fyne Home Delivery sales. This amounts to £15,000 per year..

Projects

Projects that have been assisted in recent years include local fundraising events for schools, arts organisations and communities, fundraising for Macmillan Cancer and local hospices.

For example:

- Comunn Birlinn - Local project with schools building Birlinn boats
- Dochas Fund – local charity raising funds for research into Guillain Barre Syndrome or Motor Neurone Disease
- Cairndow Arts Promotions with costs of mounting Exhibition for local artists
- SIR – Scottish International Relief – base in Dalmally - including contribution to their post-Tsunami work in fishing villages in Southern India
- CHAS – Children's Hospice scheme based in West of Scotland

- Lochgoilhead Fiddle Workshop
- Cairndow Community Childcare Centre
- The Joliba Trust - funding sustainable developments in Mali
- Argyll Fisheries Trusts – habitat renewal (clearing debris, planting deciduous trees) Population and health surveys on wild salmon in the loch
- Good Fish Guide – published by the Marine Conservation Society with 50% funding from the Loch Fyne Trust
- Beach cleaning schemes
- Habitat improvement and monitoring within Loch Fyne
- Combined work with the Soil Association to develop organic standards for shellfish growers - the application of organic standards within Loch Fyne should act to protect the Loch against undesirable forms of agricultural or aquacultural practice

Best Marine Aquaculture Company 2008

Winner – Loch Fyne Oysters Ltd

Alongside their role as significant producers of Scottish farmed shellfish, Loch Fyne Oysters have been pioneers in production methods and sales. They are also an important buyer of Scottish farmed salmon and other marine species, both through their links with top-class restaurants and at their own shop and restaurant in Argyll.

Loch Fyne Oysters maintain an ethos of environmental sustainability throughout their business which is exemplified by their Loch Fyne Trust initiative. As a company whose shareholders are its own employees, it invests in the local area and has close links with the community that are second to none.

Source:<http://www.thecrownestate.co.uk/newscontent/92-marine-aquaculture-awards-2008->

In addition to the funding accessible from the Loch Fyne Trust discretionary departmental support is available to local community groups and charities. This support takes a multitude of forms ranging from the donation of raffle prizes to participating at community fundraising events. In most cases requests are made directly from the organisation to the head of the relevant department.

Staff Transport Initiative

Over 10 years ago it was noticed that the bus operator, at that time Stagecoach, ran a bus between Dunoon and Cairndow for local school children each morning and night, with one leg of each journey with the bus empty. These empty journeys were harnessed to provide a service which suited LFO. After a period of time use of the bus tailed off and to encourage car owners to “think green” LFO subsidised each journey to keep the cost below £10 per person. This was reckoned to be cheaper than four people sharing a car. The figures for the last year show that the total number of 10 journey tickets sold totals 1,580 which equates to 7,900 return journeys. Based on four people sharing a car this would equal 1,975 car return journeys, a total of 118,500 miles (based on 60 miles per return journey). The benefits of this initiative are:

- Helps to reduce carbon emissions by reducing the number of vehicles travelling to LFO.
- Provides financial incentive to the bus company to secure bus route, which benefits the wider community.
- Public transport widens the choice for people looking for work.
- Keeps transport costs for staff down.

At the moment, over 50% of our staff are able to utilise the subsidised bus service. We are continually looking for alternatives for staff who are not able to take advantage of the subsidy (see Appendix XIII – Summer 08 Newsletter).

Flexible Working Hours Within the Shop

Flexible Working hours within the shop – creating employment opportunities enabling people whose commitments prevent them from being able to work set shift patterns to gain access to employment opportunities.

Information gathered for use by shop management for the preparation of rotas from staff shows that 10 out of 17, would find it difficult to work without the flexibility of shifts offered by LFO. In addition, three out of the six staff interviewed stated that the flexibility of shifts is a factor in their remaining with the company.

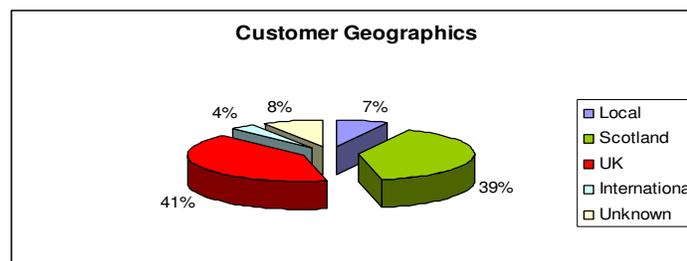
Supporting Local Producers and Small Businesses

Loch Fyne Oysters Farm Shop aims to source all goods and services from local producers (for this purpose 'local' is interpreted as Argyll and the surrounding islands). Where a product cannot be sourced in the 'local' area it will ideally be sourced elsewhere in Scotland. Only when no suitable Scottish product is available will goods be sourced from further a field. Where possible the LFO Farm Shop will use common sources with other areas of the business to reduce transport costs.

Of the 156 suppliers of goods and services to the shop 17% (27) are from the local area. This figure is not wholly representative as it is not possible to compare the percentage of local suppliers utilised by the shop against the total number of potential local suppliers. Locality is also not the only factor considered when sourcing new suppliers they must also share the Loch Fyne environmental ethos. See Appendix IX for further details on our Fish Buying Policy.

Economic Impact on Local Area

Spend from customers directly benefits the local area via wages paid to staff and use of local suppliers. Figures from Shop Research Questionnaire show that at least 84% of customers are from outside the local area. Based on this percentage, we can estimate that people from outside the local area accounted for a total of £742,995 sales in the LFO Farm Shop during 2007/08 accounting year.

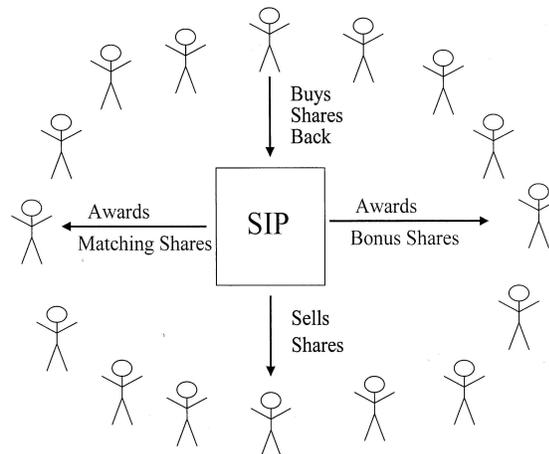


Economic Benefits of Employee Ownership

In addition to the usual financial benefits associated with working within any organisation, employee ownership and the associated share holdings and dividend adds an additional incentive to employees to take an interest in the long term security of the business.

In LFO, the Employee Benefit Trust (EBT) was set up to hold 50% of the shares of the company on behalf of the employees as a whole. The EBT has two trustees nominated by the directors to represent them together with an independent professional chairman.

For shares intended for individual ownership, the Share Incentive Plan (SIP) was set up by means of a trust deed and funded by contributions from LFO out of its profits. Two trustees are elected by the employees and serve for two years at a time. Again there is an independent professional Chairman appointed. The SIP can hold shares for the employees as a whole or give out bonus shares to individual employees or give matching shares to employees who use their own cash or savings to acquire shares. The maximum number of shares any one person can hold is 5% of the total shareholding.



The share scheme allows each individual to build up a capital stake over time, which can be turned into cash. LFO runs an internal market for the shares, allowing each person to sell shares when required, without making it necessary to sell LFO as a whole. Shares received free have to be held for five years before they can be sold.

This has long and short term implications for the economic situation of the local area as the share scheme provides staff with the opportunity to top up their pensions upon retiring with a one off pay out. The prospect of secure and specialised employment opportunities encourages young and economically active people to remain in the local area. In the short term the annual dividend paid on shares encourages staff to invest in the company and provides an additional source of income.

Employee Ownership

Loch Fyne Oysters was the third co-owned company that the Baxi Partnership helped, making a loan to the company of £2 million. A bank loan of £1.1 million was also taken to fund a Share Incentive Plan (SIP) and employee ownership started in 2003. The founders' shares were bought at the full market rate, and the purchase price for the company met the best other offers, "so was felt to be fair to the existing shareholders", according to Bob Craig, Chairman. Craig adds that by March 2008, the Company had fully repaid the £1.1 million bank loan and two out of 10 annual installments to the Baxi Partnership. Half of the shares are in an Employee Benefit Trust, administered by a 2-person trustee board. The remaining half is split into two parts: eight to ten managers hold some shares or options arising out of previous employee share ownership schemes; and the bank loan is held in a SIP, administered by three director-appointed trustees.

Employees can acquire shares in three ways:

- free shares distributed by the SIP each year, depending on profits;
- employees can buy additional shares through a saving scheme (on which the SIP awards matching shares);
- can take dividend shares (Loch Fyne Oysters paid its first dividend in 2006).

Greater involvement means people start to get more interested in the long-term future of the business, and ask questions about its direction. "We did get uplift in employee interest on the back of paying our first dividend in 2006 – the reality is that people are comfortable with the philosophy of employee ownership, but also want the tangible benefits", says the company's Managing Director, Bruce Davidson. Loch Fyne is starting to edge towards being a preferred employer in the local area, and Davidson believes employee ownership plays its part, through a combination of philosophy and tangible reward – "it's an attractive recruitment tool when word gets out that a dividend is paid", he adds. In 2007, Loch Fyne won the award for Best Company in the Highlands and Islands of Scotland.

Source: www.employeeownership.co.uk/pdfs/LochFyneOysters.pdf

9 Compliance

In addition to the various standards already referred to, we comply with all standards expected by our customers. This includes British Retail Consortium (BRC) Global Standard - Food, Kosher and Parav, Equal Opportunities (a copy of our policy can be viewed on request). We also adhere to the Association of Scottish Shellfish Growers (ASSG) Code of Good Practice. It is worth noting that, not only do LFO adhere to this document, but contributed to its development.

ASSG Code of Good Practice

Well managed shellfish farming is an activity that can benefit the environmental health of our coastal waters. The ASSG is currently in the process of developing a shellfish industry Code of Good Practice in order to ensure that farming activities are managed in an environmentally responsible and sustainable manner that is in harmony with the needs of other marine and shoreline users.

Source: www.assg.co.uk/environmentalsustainability.html

10 Financial information

All income was earned during 2007/2008 with the exception of a grant of £76,238 for business development – mussel deputation, oyster tanks and land development to the rear of the Clachan site. Full accounts are available to view if required.

		2007/2008	2006/2007
		£	£
Turnover			
	Aqua	1,150,395	911,597
	Home Delivery	679,794	534,422
	Oyster Bar	1,140,392	1,143,236
	Shop Sales	884,517	952,996
	Smokery	4,865,844	4,975,363
	Traded Goods	4,960,477	3,325,039
Other Income			
	Sec Fees	12,000	12,000
	Grant	76,238	78,745
		13,769,657	11,933,398
Costs			
	Cost of Sales	(11,044,145)	(9,228,954)
	Administrative Expenses	(2,470,392)	(2,191,614)
Operating Profit		255,120	512,830

11 Main issues and achievements, conclusions and recommendations

The Company operates in a fast-paced, real time, live product, short shelf life, environment having to meet the end consumer demands and needs. In such a dynamic industry keeping pace or even ahead of issues is challenging.

Long before the awareness of sustainability and corporate social responsibility became widespread, LFO had established these principles in the development of the Company ethos and brand.

Applying the necessary discipline used in financial accounting to the social accounts process would ensure that the Company adheres to sound accounting principles throughout the year, giving a scorecard of how the Company has performed against its own values and objectives.

We would look to incorporate the social accounting principles throughout the business, with each division reporting back on their performance thus embedding the process.

For the more specific aspects of the accounts we have provided the following summary:

During the Social Accounting year we achieved the following awards:-

- Marine Aquaculture Company of the Year – *The Crown Estate Marine Aquaculture Awards*
- Business of the Year – *Highland and Islands Business Awards*
- Scotland Food & Drink Excellence Awards 2008 : Category Retail – Fish and Seafood

Much is done within the Company on the Social, Environmental and Economic fronts, though at times the lack of documented evidence of activities and feedback leads to an unclear picture of the current situation and hampers progress. Being in an already heavily regulated industry, means that additional records of a non essential nature may be missed.

In order to focus on environmental key areas – assessing the current situation and draw up plans for future improvement – we would recommend the set up of an environmental group drawing on key staff from different areas of the business with purpose of measuring and improving our environmental impact. This would also help to share knowledge and information through the business as well reducing our energy costs and subsequent carbon footprint.

We believe continuing to take a participative approach to future development sharing knowledge and expertise with our partners.

The result of the customer analysis shows the need to further identify our customer wants and needs by being proactive in obtaining customer feedback. Whilst complaints are recorded there is a lack of positive record keeping. We would look for more emphasis on recording a balanced cross section of comments from our customers and partners to give a more accurate picture. A proactive approach will also allow us to assess customer needs both now and in the future.

Whilst customer feedback on staff performance was very encouraging, a possible area for improvement would be staff product knowledge and would look for additional training in this area during the next year. Continued monitoring and assessment of staff performance will ensure that we maintain the high standards achieved.

12 Strengths and weaknesses of the Social Accounting Process

Strengths

- Provides a useful marketing tool which can be used to grow the business and is given real value by the independent auditing process.
- Assists in the development of internal systems to record information relating to the social and environmental activities and performance for the organisation which may otherwise be undocumented and in doing so enables the organisation to more accurately measure and manage future development in these key areas.
- It encourages honest and comprehensive self reflection within the organisation, breaking down the barrier between the perceived and actual direction that the organisation is taking.
- Helps to identify points, values. Measure of non-financial business success.

Weaknesses

- It is difficult to implement and adapt the social accounting model to our diverse and complex commercial business structure as to date it appears to have been predominately utilised by social enterprises.
- The process is considerably more labour intensive than was first anticipated. The effects of which were intensified by the unforeseen increases in work loads and re direction of focus throughout the organisation brought about by the acquisition half way through the accounting period of Simsons Fisheries.
- Within an employee owned organisation it is necessary to consult all the staff as such the initial consultation process to ensure the 'buy in' of the whole organisation was considerably more protracted than would perhaps be the case in non employee owned businesses.
- Difficult to get absolute 'buy in' as social accounting's value is in the first year largely theoretical and priority of resources is given to audits and processes which have proven commercial value. This is further necessitated by the current financial climate.
- If time and resources had permitted we could have consulted a wider cross section of our stakeholders.

13 Future plans for the next Social Accounting Cycle

A period of review will take place on completion of the Final Social Accounts at which time we will decide on the future viability of process and our participation therein.

14 Dialogue and disclosure

At this time no decision has been made on the production of summary Social Accounts and the distribution thereof. This will be reviewed by the Board.