

General Manager: Dr Ann Black

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If calling please ask for  
**Mary Anderson**  
Direct Dial: 01595 744992

Our Ref: EMA/TA1/1  
Your Ref:

Date: 28 October 2009

Dear Sir/Madam

You are invited to the following meeting:

**Special Shetland Charitable Trust  
St Catherine's Suite, Shetland Hotel, Lerwick  
Tuesday 3 November 2009 at 11.30am**

Apologies for absence should be notified to Lynne Geddes on 01595 744592, or to Jenna Johnson on 01595 744544.

This meeting will be followed by a presentation by Alan Chesney (Environmentalist) and Tony Windle (Construction Engineer) of Morrison Construction. Members of the press are invited to stay for the presentation.

Soup and sandwiches will be served at 12.30pm.

**Please note the venue and the time for this meeting**

Yours faithfully

(signed) Dr Ann Black  
General Manager

#### **AGENDA**

- (a) Hold circular calling the meeting as read.

(b) Apologies for absence, if any.

(c) Declarations of Interest.

The following item contains **confidential** information

***For Information***

1. Land Adjacent to Sullom Voe Terminal (**copy to follow**).

The remaining items are to be taken in public

***For Decision***

2. Annual Report and Accounts for the Year to 31 March 2009. Report enclosed.

3. District Heating Scheme – Monitoring Report 2009. Report enclosed.

***For Information***

4. Viking Energy Limited – Project Update. Report enclosed.

5. Governance Review Group – Verbal Update.

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**REPORT****To:** Shetland Charitable Trust

3 November 2009

**From:** Financial Controller

Report: CT0911081

**Shetland Charitable Trust  
Annual Report and Accounts for the year to 31 March 2009****1. Introduction**

- 1.1 The Annual Report and Accounts for the year to 31 March 2009, which follow as Appendix A, are prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

**2 Commentary**

- 2.1 Appendix B contains my summary of the accounts. The first page shows a balance sheet as at 31 March 2009 with the year before as a comparison. The managed funds show a significant fall in the year.
- 2.2 The next sheet shows the financial movements for the year. The first section, headed up "fund managers" shows the effect of the negative sentiments in the world's markets as net losses of £40.7 million. 2008/09 will be remembered as the year of the "credit crunch". There was one, relatively small, piece of good news. The change to passive management of the equity investments led to an overall reduction in fund managers' fees to one third of the level of the year before.
- 2.3 The local investments did well, returning £4.0 million on a portfolio of about £25 million. They consist of SLAP's leasing and property portfolio, the land at Sullom Voe Terminal and the District Heating infrastructure.
- 2.4 Charitable expenditure crept up, mainly due to one-offs such as a contribution to the CATS scanner fund, fire protection works at the care homes and potential tax to pay on the Christmas grants. Once these one-offs have been completed and the results of the current savings review are implemented, charitable expenditure should fall.
- 2.5 The new donations to the Trust were the proceeds of the sale of Islesburgh Community Centre and Islesburgh House; the donated assets of the Garrison Theatre; and just over £3 million on the wind up of SICCT 1976.

2.6 As always, the Trust's financial position is dominated by the stockmarket returns. 2008/09 was a poor year on the world's markets, and 2007/08 was also a negative year. However, 6 March 2009 was a low point, with the improvements seen in the rest of March carrying on after the year end. The gains between 1 April 2009 and 9 October 2009 are over £30 million.

### **3. Recommendation**

3.1 Trustees are asked to:-

- a) approve the Annual Report and Accounts for the year to 31 March 2009;
- b) authorise the Chairman and Vice Chairman to sign the Accounts; and
- c) authorise the Chairman to sign the Letter of Representation to the auditors, attached as Appendix C.

Reference: JPG/EMA/TA2

Report Number CT0911081-F

**Shetland Charitable Trust**

**Trustees' report and consolidated  
financial statements**

**Charity number SC027025**

**31 March 2009**

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## **Chair's introduction**

The year ended with the share market, which is our biggest single area of investment, at a low ebb. Conversely, the bond market has held up well and our local investments, notably Shetland Leasing and Property Limited, are earning improving profits.

The uncertain investment outlook, with no consensus among forecasters about the likely trends, has caused us to begin a review with the biggest bodies funded by the Trust to seek reductions in future spending. The anticipated savings, together with a likely reduction in the cost of the Christmas Grant Scheme, should take a large step towards bringing spending closer to the sustainable level. The review will ultimately cover every part of the Trust's spending.

Another working group is reviewing the governance of the Trust, particularly the composition of the Trustee body, to meet a request from the Office of the Scottish Charities Regulator and to ensure compliance with the Scottish Charities Act. This group is expected to report during the coming year.

The Trust continues to examine the possibility of investing, in partnership with Scottish and Southern Energy, in a large wind farm in central Shetland. The financial estimates regarding this prospect continue to be positive, but can only be finally arrived at once a consent to build has been achieved. The consent application will be submitted early in the new financial year. The costs to the determination of the application are expected to be contained within the original budget estimate.

After a period of more than 18 months without a General Manager, Ann Black took up the post in January 2009 and is making an energetic start. We look forward to her contribution and to the activities of the Trust being examined by a fresh eye. During the interregnum our staff, led by Jeff Goddard doubling as Acting General Manager as well as Financial Controller, coped willingly and efficiently with all that was demanded of them. I extend our gratitude and thanks to them all.

**WH Manson**  
Chair  
Shetland Charitable Trust  
3 November 2009

## Trustees' Report

### *Section 1: Reference and Administrative Details*

**Name** Shetland Charitable Trust  
**Scottish Charity Number** SC027025  
**Address** 22-24 North Road, Lerwick, Shetland, ZE1 0NQ

#### **Trustees**

William Henry Manson, Mangaster, Sullom – Chair  
James Herculeson Henry, 17 Murrayston Lerwick – Vice Chair  
Leslie Angus, 12 Lovers Loan, Lerwick  
Laura Florence Baisley, 2 Effstigarth Herra Mid Yell  
James Budge, Bigton Farm, Bigton  
Alexander Jamieson Cluness, 5 Twageos Road, Lerwick  
Alastair Thomas James Cooper, Linga, Mossbank  
Adam Thomas Doull, Islesburgh, Sullom  
Allison George Leslie Duncan, 1 Hillock, Dunrossness  
Elizabeth Laureen Fullerton, Valdur, Bridge End, Burra  
Florence Barbara Grains, Hoove, Whiteness  
Iris Jean Hawkins, 48 Sycamore Avenue, Scalloway  
Robert Simpson Henderson, Maraberg, Cullivoe, Yell  
Andrew James Hughson, Brunthamarsland House, Grista  
Caroline Helen Janette Miller, Heogan, Bressay  
Richard Chadsey Nickerson, Ringan, Bigton  
Valerie Margaret Lillias Nicolson, Midgarth, Twagoes Road, Lerwick  
Frank Andrew Robertson, Columbus, Selivoe, Bridge of Walls  
Gary Robinson, 17 Burnside, Lerwick  
Joseph Gilbert Simpson, Brucefield, Symbister, Whalsay  
John Hamilton Scott, Keldabister Banks, Bressay  
Cecil Laing Smith, 1 Westerloch Crescent, Lerwick  
Jonathon Witney Garriock Wills, Sundside, Bressay  
Allan Sinclair Wishart, Seafielde Lodge, Lower Sound, Lerwick (resigned 5 August 2009)

**Chief Executive** Morgan Goodlad (resigned 31 December 2008)

**General Manager** Ann Black (appointed 1 January 2009)

**Financial Controller** Jeff Goddard

**Bankers** Bank of Scotland  
117 Commercial Street  
Lerwick  
ZE1 0DL

**Auditors** KPMG LLP  
37 Albyn Place  
Aberdeen  
AB10 1JB

**Trustees' Report** *(continued)*

<b>Solicitors</b>	Turcan Connell Princes Exchange 1 Earl Grey Street Edinburgh EH3 9EE	
<b>Investment Managers</b>	Insight Investment Management (Global) Limited 33 Old Broad Street, London, EC2N 1HZ	
	Record Currency Management Limited Morgan House Madeira Walk Windsor Berkshire SL4 1EP	Barclays Global Investors Limited Murray House Royal Mint Court London EC3N 4HH
<b>Custodian And Investment Monitor</b>	The Northern Trust Company 50 Bank Street Canary Wharf London E14 5NT	
<b>Investment Consultant</b>	Hymans Robertson LLP 20 Waterloo Street Glasgow G2 6DB	

## **Trustees' Report** *(continued)*

### **Section 2: Structure, Governance and Management**

#### **Governing Document**

The Shetland Islands Council Charitable Trust was established by a Deed of Trust on 10 September 1997, and registered in the Books of Council and Session on 24 September 1997. It replaced an earlier trust, which was also called Shetland Islands Council Charitable Trust (established 1976) now known as SICCT 1976 (Scottish Registered Charity SC016192). The Trust Deed appoints Trustees, states the charitable purposes of the Trust and also sets out the powers of the Trustees. This Trust has since been re-named Shetland Charitable Trust.

#### **Charitable Status**

Charitable status was originally conferred on the Trust by H M Inspector of Taxes, based on the terms of the Trust Deed. Granting of tax reliefs is now the responsibility of HM Revenue and Customs (in succession to the Inland Revenue), and charitable status confers exemption from payment of most taxes. Regulation of charities in Scotland is now the responsibility of the Office of the Scottish Charity Regulator (OSCR), created on 24 April 2006. The registered charity number is SC027025. Both these regulators require to be satisfied as to the Trust's charitable activities and, with regard to OSCR, public benefit generated.

#### **Trustees – Appointment, Induction and Training**

Following the resignation of Allan Wishart on 5 August 2009, the Trust has twenty-three Trustees, namely, twenty-one of the Councillors of Shetland Islands Council as individuals, the Lord Lieutenant of Shetland and the Head Teacher of the Anderson High School. All are appointed as Trustees *ex officio*. The Trust Deed indicates which individuals are deemed to appropriately represent the interests of the beneficiaries of the Trust, by virtue of their positions within the community. A list of names and addresses of Trustees can be found on page 2.

Trustee training is provided as appropriate. New Trustees receive induction training. From time to time, Trustees receive reports on their roles and responsibilities, in line with developing guidance from OSCR.

#### **Management and Administration**

The Trust is managed and administered by a team of nine directly employed staff. The General Manager's role is to ensure that the charitable activities carried out by the Trust are carried out in furtherance of its purposes, value for money and complement the needs and aspirations of the community, all in accordance with the Trust Deed and the law. The Financial Controller is responsible for the effective management of the Trust's liquid resources. This includes ensuring that charitable status is retained and putting in place effective investment policies. Some specialist services are purchased from Shetland Islands Council, and other providers, under various service level agreements.

The Trust's procedures are governed by a set of Administrative Regulations. This public document has been updated to reflect the changes in administration, and is available on request from the Trust's office.

#### **Complementary Services**

Shetland Charitable Trust is an independent and unique organisation. Although it aligns itself with the work undertaken by Shetland Islands Council under its statutory obligations, there is no financial relationship between the two parties (except contractually in connection with some specific joint projects). The Trust attempts to complement the work of Shetland Islands Council by remaining aware of the overall direction, strategy and service needs required for this community. To that end, the two bodies have historically shared a Chief Executive, which has helped to ensure that the Council and the Trust complement each other's work and retain a common strategic direction. That position changed when the current Chief Executive resigned on 31 December 2008, and the post was deleted.

## **Trustees' Report** *(continued)*

### **Subsidiary Companies**

The activities of the three wholly owned subsidiary companies of the Trust are reviewed in Section 5. The Trust as the only member nominates all the directors as follows:

<b>Shetland Leasing &amp; Property Developments Limited (SLAP)</b>	James Henry – Chair (appointed 26 March 2009) William Manson – Chair (resigned 26 March 2009) William Manson – Vice Chair (appointed 26 March 2009) James Henry – Vice Chair (resigned 26 March 2009) Alexander Cluness Allison Duncan Iris Hawkins Caroline Miller Allan Wishart (resigned 5 August 2009) Robert Henderson (appointed 22 September 2009) Adam Doull (appointed 22 September 2009)
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The same directors were appointed to serve on the board of SLAP's subsidiary company, SLAP (Trading) Limited.

<b>Shetland Heat Energy &amp; Power Limited (SHEAP)</b>	Gary Robinson – Chair Richard Nickerson – Vice Chair James Henry Allison Duncan Allan Wishart (resigned 5 August 2009) Robert Henderson (appointed 22 September 2009)
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<b>C. T. Shetland (T. M.) Limited</b>	Florence Grains Iris Hawkins William Manson James Henry
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### **Viking Energy Limited**

The Trust owns 90% of the issued share capital of Viking Energy Limited, and the activities of that company are discussed in Section 5. The Trust has nominated directors as follows:

William Manson – Chair Alastair Cooper Allan Wishart (resigned 5 August 2009) Caroline Miller (appointed 22 September 2009)
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### **Risk Management**

A Working Group of Trustees was set up in July 2006 to review the adequacy of the Trust's risk management arrangements. Over time, Trustees consider that the risks which require to be actively managed have moved from being of a strategic nature, to being more operational in nature. That is not to say that the Trust does not face significant strategic risks, but the Trustees feel that the steps taken to mitigate against those risks are suitable and reasonable.

Trustees ranked their risks in order of severity of impact and frequency of occurrence. Priority is given to tackling the issues which have a high likelihood of occurring and a major impact on service delivery should they occur. The Working Group identified 33 potential risks, which may impact on the business of the Trust. An Action Plan was drawn up and progress reports are prepared to ensure that Trustees remain confident that systems are in place to mitigate against the risks identified.

A further Working Group of Trustees met in the summer of 2008 to perform a second in depth review of the adequacy of the Trust's risk management arrangements.

### **Disclosure of information to auditors**

The Trustees who held office at the date of approval of this Trustees' report confirm that, so far as they are each aware, there is no relevant audit information of which the Trust's auditors are unaware; and each Trustee has taken all steps that he/she ought to have taken as a Trustee to make himself/herself aware of any relevant audit information and to establish that the Trust's auditors are aware of that information.

## Trustees' Report *(continued)*

### Section 3: Objectives and Activities

#### Objects of Trust (extracted from the Trust Deed)

The Trustees shall hold the Trust Fund at their sole discretion to make grants or loans with or without interest out of the income or capital of the Trust Fund for any purpose which in the opinion of the Trustees are solely in the interests of the area administered by the local or other governmental authority for the time being of the Shetland Islands or of the inhabitants of the said area (hereinafter referred to as "the community") and provided that any such grant or loan is for charitable purposes: declaring that without prejudice to the generality of the foregoing such grants or loans may be made for the following purposes:

- (a) In carrying out developments on or in connection with the said area calculated to promote the welfare of the community;
- (b) in encouraging and assisting the holding of meetings of members of the community for purposes of recreation, instruction or education;
- (c) in improving, maintaining and encouraging the improvement and maintenance of means of communication in the said area, and in particular by (i) building or improving or maintaining ports, harbours, piers, roads, bridges and aerodromes; (ii) hiring or chartering or purchasing and operating any boat, ship, vessel, aeroplane or any kind of land, sea or air vehicle; (iii) laying or maintaining telephone and telegraph wires or cables, whether on land or under the sea; and (iv) installing and operating stations for wireless and television;
- (d) in promoting directly or indirectly the development of any industry or industries among the community for its benefit in any manner in which the Trustees consider desirable;
- (e) in promoting directly or indirectly the development of agriculture among the community for its benefit;
- (f) in encouraging the education of the community by such means as the Trustees may consider desirable;
- (g) in improving the medical service to the community by such means as the Trustees may consider desirable;
- (h) in the preservation and improvement of the said area in the manner which in the opinion of the Trustees is most conducive to promoting the said area for the benefit of the community and of the Nation;
- (i) in the founding, endowing and equipping of schools, colleges, institutions, laboratories, experimental station, libraries, sports centres, welfare centres or technical education centres for the community;
- (j) in encouraging the study and practice of any useful branch of human knowledge by the provision of buildings, equipment or otherwise as the Trustees may consider desirable;
- (k) in the doing of all such other things as are incidental to any of the foregoing purposes:

declaring further that no act of the Trustees shall be deemed to be ultra vires by reason only that individuals or bodies who do not form part of the community may or will benefit indirectly by such act.

#### Priorities

In their corporate plan, Trustees have identified a number of priorities, which link to the objects. Priority will be given to supporting projects and activities which:

1. contribute to a balanced provision of public services within Shetland [*all objects*]
2. support services to people in need [*object (a), (g), (i)*]
3. support services for the elderly [*object (a), (i)*]
4. support services for children and young people [*object (a), (b), (f), (i)*]
5. contribute to maintaining and developing Shetland's environment [*object (a), (h)*]
6. contribute to diversifying Shetland's economic base [*object (a), (c), (d), (i)*]
7. contribute to the removal of the so-called "dependency culture" [*object (a), (b), (c), (d), (f), (i), (j)*]
8. support employment in rural areas [*object (c), (d), (e), (i), (j)*]

The Trust's corporate plan is a public document and is available from the Trust's offices.

## **Trustees' Report** *(continued)*

### **Shetland Islands Council**

In furtherance of its charitable activities narrated in the Trust Deed, the Trust endeavours to "top up" public services, in line with the community's needs, which are complementary to those provided by national and local taxation.

The Trust wishes to ensure that the charitable activities it carries out are appropriate and complementary to those activities carried out by Shetland Islands Council. This is done through dialogue with the Chief Executive, the Council's Head of Finance and our Service Co-ordinators (see below).

Rather than employ people who are experts in particular fields, the Trust seeks advice from senior managers in the Council as to what activities it might carry out for the public benefit of the inhabitants of Shetland. These managers are referred to as Service Co-ordinators and their role is to determine:

- the strategic service framework within which any bid for funding from the Trust should be considered;
- an appropriate level and standard of service to be provided and express that in a Service Statement or Service Level Agreement (as appropriate);
- the appropriate cost at which to buy that service with due regard to comparable information and funding from other sources; and
- an appropriate monitoring and evaluation framework to ensure that services are being delivered to the required standard.

This ensures that the two organisations follow the same strategic direction and avoids any duplication of effort in assessing if projects or activities are suitable for funding. The Service Co-ordinators provide professional advice, with the final decision to support a project or activity, lying with the Trustees.

### **Grant Making Policy**

At the moment, the Trust could be described as a strategic funding body as, in the main, it provides funding for other organisations to carry out activities on its behalf and only undertakes a small amount of "direct" activity in the Shetland community. The Trust can only give grants where a benefit to the Shetland community is clearly demonstrable.

### **Funded Bodies -- Performance Monitoring**

The Trust has moved away from the idea of "deficit" funding the running costs of organisations to being more specific about the activities which they are providing in the community for the grant assistance provided. This change is reflected in the application process, which requires the organisations to give details of what activities they provide in the community, who they benefit and what difference they make to life in Shetland. The Trust's staff monitor the actual performance of the funded bodies against those described in the relevant application form, and report exceptions to Trustees. Trustees have received presentations from all of the funded bodies who have received funding of £50,000 or more over the last four years, and it is proposed to repeat this over the next four years. These processes are significant steps towards an overall performance monitoring process which will enable Trustees and beneficiaries (the Shetland community) to assess the overall contribution to the Shetland community of activities funded by and directly provided by the Trust.

## Trustees' Report *(continued)*

### Financial Objectives

Trustees agreed in 2002 to move the Trust's financial planning onto a triennial basis (from the annual basis used previously), in an attempt to smooth out the effect of fluctuations in the Trust's income (principally derived from the world's markets). Significant reductions were made in charitable and administrative expenditure in the three year period to 31 March 2006. The three year period to 31 March 2009 was largely spent in consolidating the financial position of the Trust.

Turning to the current three year period ending on 31 March 2012, Trustees have agreed that expenditure needs to be reduced by a further £1 million pa to comply with the Trust's long term strategy of 'self sustainability', ie only spending the (average) growth in the fund after inflation, and so preserving the real value of the capital sum.

Trustees were very concerned following the terrible falls in the world's stock markets in the autumn of 2008, but decided not to disturb the current three year financial objectives described above.

### Budgets

Each year the Trustees adopt a budget for the incoming financial year. Details of the initial budget approved by Trustees are given in column 1 of the tables on pages 10 and 11. Some variations are approved during the year, and these are shown in Column 2 of the tables. The Trustees usually debate the annual budget in public. Most charitable disbursements are also considered in public. The main exceptions are grants to specific individuals, where the names and addresses are kept confidential, in order to preserve the privacy and dignity of the grantees.

### Minutes

The public minutes of all meetings of the Trustees, together with the relevant reports, may be inspected during office hours, at the Trust's office at 22-24 North Road, Lerwick. The public minutes are also available electronically through the trust's website, [www.shetlandcharitabletrust.co.uk](http://www.shetlandcharitabletrust.co.uk).

## Section 4: Achievements and Performance

### Service Plan

Trustees have approved a Service Plan, which sets out a description of what the Trust does for the people in this community, to help to improve their quality of life. The Service Plan is presented as three elements, as follows:

- looking after the Trust, by protecting the assets and keeping proper accounts (this is mostly achieved by Trustee monitoring and the operation of an appropriate system of Internal Controls);
- investing funds wisely, to earn money but also to maintain the Trust's capital value (investment performance for the year is reviewed in Section 5);
- providing funding for additional services to the people of Shetland, beyond that which you would normally expect to receive from statutory agencies (see below).

During the year to 31 March 2009, the Trust provided grant assistance to the following organisations towards the cost of providing a range of social, leisure, cultural, heritage and environmental activities:

- |                               |   |
|-------------------------------|---|
| • Citizens Advice Bureau      | • Shetland Arts   |
| • COPE Ltd                    | • Shetland Befriending Scheme   |
| • Couple Counselling Shetland | • Shetland Churches Council Trust   |
| • Disability Shetland         | • Festivals: Fiddle and Accordion   |
| • Festivals: Folk Festival    | • Shetland Council of Social Service (now called Voluntary Action Shetland) |
| • Shetland Link-up            | • Shetland Recreational Trust   |
| • Shetland Amenity Trust      | • Shetland Youth Information Service  |
| • Shetland Art Therapy        | • The Swan  |

The Trust has agreed a change to the funding arrangements for these organisations whereby, in future, it will enable organisations which it funds to hold small reserves, for unforeseen items and to help with cash flow issues, rather than them having to return all unspent balances to the Trust. This change took effect from 1 April 2007.

## Trustees' Report *(continued)*

During the year, the Trust worked with the organisations funded to develop a system of service performance reporting. Trustees considered a progress report on service performance in December 2008, which set out, in detail, how the Trust's money makes a difference to people and communities. In the main, Trustees were satisfied that most organisations were performing satisfactorily against their stated targets, and there were no significant areas of concern. The Trust also supports a range of charitable projects and schemes, as set out below:

- Christmas Grant to Pensioners and Disabled Households
- Development Grant Aid Scheme
- Community Support Grant Aid Scheme
- Arts Grant Aid Scheme
- Sheltered Housing Heating
- Senior Citizen's Clubs
- Employment of Disabled
- Equalisation of Residential Care Charges
- Shetland Field Studies Service
- Local Charitable Organisations
- Social Assistance Grants
- Bus Services Elderly and Disabled

The Trust has held a dialogue with HM Revenue and Customs over the Christmas Grants. The Trust has modified the Scheme from 2009 and onwards to better target the grants towards those in financial need. The Trustees intend to minimise in negotiation with HM Revenue and Customs the possible extent of any tax bill eventually levied.

Over the years the Trust has invested in a range of community facilities and equipment and has in place a planned maintenance programme to ensure that the buildings, equipment and other assets are well maintained and in good condition. The facilities and assets include:

- leisure centres in Unst, Yell, Brae, Aith, Whalsay, Scalloway and Sandwick
- the Clickimin Complex in Lerwick
- rural care centres in Unst, Yell, Whalsay, Brae, Walls and Levenwick
- the Garrison Theatre in Lerwick
- the New Museum and Archives in Lerwick
- Market House, the Voluntary Resource Centre in Lerwick
- Various offices and other buildings for local charities
- The Swan, heritage sailing vessel

Trustees made a number of one-off contributions during the year. Trustees had previously agreed to a contribution of up to £600,000 towards the CAT Scanner Appeal, a fund-raising appeal organised by a number of local volunteers. The balance (£194,505) of this grant has been paid out. Work is continuing on a programme of upgrading the Fire Safety arrangements in the six rural care homes owned by the Trust. Final instalments were paid in respect of the construction of Market House and the New Museum and Archives.

The detail of how much money is spent on these charitable programmes is shown in tabular format on pages 10 and 11. The tables show five columns, the original budget, changes to the budget agreed by Trustees during the year, actual spend during the year and any variances at the year end.

### Financial Performance

In 2008/09, Trustees set a three year financial policy for the years up to 31 March 2012. This policy requires Trustees to reduce expenditure by £1 million per annum by 31 March 2012. This policy was set before the spectacular falls in share values last autumn. The markets showed some recovery by 31 March 2009 from the low point at the beginning of that month. The recovery has continued in the current financial year, but is still below where the Trust needs to be if the long term strategy of self-sustainability is to be met. Trustees are continuing to take a three year view and have not changed the target for savings. It remains to be seen what recovery the markets make over this period.

Details of the activities and performance of the Trust's subsidiary companies are provided in Section 5 of this report. In summary, SLAP and SHEAP have performed well in 2008/09 and have generated profits for the Shetland Charitable Trust group ahead of expectations. The rentals from the land at the Sullom Voe terminal also made a useful contribution, if below expectation for the year.

### Trustees' Report (continued)

The Trust continues to review its own management and administration costs. These have fallen from over £900,000 in 2002/03 to around £600,000 in 2008/09. The introduction of service level agreements with the Shetland Islands Council for the provision of agreed, specific, expert work, as negotiated by the Trust's independent management, instead of the previous system of accepting Council recharges is a key contributor to this fall. The Trust staffing has reduced from 11 in 2005/06 to eight in 2007/08, but has now risen to nine with the appointment of a new General Manager. Salary costs have risen slightly as a consequence of this appointment.

#### Charitable Expenditure Year to 31 March 2009

	Original budget £	Vire / enhance £	Current budget £	Actual spend £	Variance £
<b>Charitable Organisations</b>					
Shetland Amenity Trust	1,056,299	-	1,056,299	1,056,300	(1)
Shetland Arts Development Agency	754,513	15,000	769,513	769,514	(1)
Shetland Field Studies Service	35,097	-	35,097	27,199	7,898
Shetland Recreational Trust	2,925,004	106,900	3,031,904	3,031,904	-
Shetland Youth Information Service	183,840	-	183,840	183,840	-
COPE Limited	145,034	-	145,034	145,034	-
Citizens Advice Bureau	130,015	15,135	145,150	145,150	-
Voluntary Services Resource Centre	152,631	-	152,631	152,631	-
Shetland Churches Council Trust	-	53,669	53,669	53,669	-
SCSS – Children's Befriending Scheme	54,571	-	54,571	54,571	-
SCSS – New Shetlander	1,566	-	1,566	1,566	-
Disability Shetland Recreation Club	12,933	-	12,933	12,933	-
Women's Royal Voluntary Service	54,515	-	54,515	54,515	-
The Swan Trust	47,900	-	47,900	47,900	-
Shetland Link Up	47,669	-	47,669	47,669	-
Shetland Link Up – Art Therapy	25,555	-	25,555	25,555	-
Relate Shetland	12,000	-	12,000	12,000	-
Cost of Change (Trusts)	-	50,000	50,000	25,244	24,756
<b>Sub total: Charitable Organisations</b>	<b>5,639,142</b>	<b>240,704</b>	<b>5,879,846</b>	<b>5,847,194</b>	<b>32,652</b>

	Original budget £	Vire / enhance £	Current budget £	Actual spend £	Variance £
<b>Projects</b>					
Independence at Home Scheme	-	74,466	74,466	24,993	49,473
Community Alarm Scheme	97,000	23,865	120,865	119,956	909
Christmas Grant Scheme	1,125,500	-	1,125,500	1,655,096	(529,596)
Equalisation of Charges	3,129,656	-	3,129,656	3,129,656	-
Community Development Grants	21,836	(4,051)	17,785	17,785	-
Community Support Grants	63,060	6,159	69,219	69,219	-
Festival Grants	28,800	-	28,800	28,800	-
Arts Grant Scheme	40,575	(2,108)	38,467	21,687	16,780
Social Assistance Grants	53,060	2,000	55,060	32,874	22,186
Senior Citizens Clubs	24,480	-	24,480	21,292	3,188
Buses for Elderly and Disabled	49,000	-	49,000	48,000	1,000
Local Charitable Organisations	10,000	-	10,000	9,860	140
Sheltered Housing Heating	25,500	-	25,500	25,500	-
Employment of Disabled	10,850	-	10,850	7,197	3,653
Springfield Running costs	2,000	-	2,000	2,853	(853)
Contingency	20,000	(20,000)	-	-	-
Charitable Gift – Caravan	-	-	-	7,888	(7,888)
<b>Sub total: Projects</b>	<b>4,701,317</b>	<b>80,331</b>	<b>4,781,648</b>	<b>5,222,656</b>	<b>(441,008)</b>

## Trustees' Report *(continued)*

	Original budget £	Vire / enhance £	Current budget £	Actual spend £	Variance £
<b>Property Advice and Maintenance</b>					
Shetland Amenity Trust	277,130	-	277,130	277,130	-
Shetland Arts (including Weisdale Mill)	63,000	-	63,000	45,445	17,555
Shetland Recreational Trust	605,712	-	605,712	605,712	-
Market House	8,000	-	8,000	25,433	(17,433)
Swan Trust	20,500	-	20,500	20,500	-
Rural Care Homes Fire Safety	-	450,000	450,000	251,766	198,234
Rural Care Homes Building Mgt Systems	-	7,000	7,000	10,862	(3,862)
Springfield Chalet	1,500	-	1,500	1,113	387
Maintenance 22-24 North Road	22,000	-	22,000	8,196	13,804
Contingency	25,000	-	25,000	409	24,591
<b>Sub total: Property Advice &amp; Maintenance</b>	<b>1,022,842</b>	<b>457,000</b>	<b>1,479,842</b>	<b>1,246,566</b>	<b>233,276</b>
<b>Total of Programme</b>	<b>11,363,301</b>	<b>778,035</b>	<b>12,141,336</b>	<b>12,316,416</b>	<b>(175,080)</b>
<b>Capital Expenditure Projects (slippage from Previous years)</b>					
CATS Scanner	-	-	-	194,505	-
Market House	-	-	-	9,829	-
New Museum and Archives	-	-	-	81,615	-
	-	-	-	285,949	-
<b>Less: Charitable grants repaid</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(92,031)</b>	<b>-</b>
<b>Overall total</b>				<b>12,510,334</b>	

### Section 5: Financial Review

#### Growth and Unrestricted Funds

The 1976 Trust's main source of capital in its early days was from quarterly payments made to it under the terms of a legal agreement between the then Zetland County Council, and the operators of the Sullom Voe Oil Terminal. This agreement was popularly known as the Disturbance Agreement, and the sums paid to the Trust were generally known as the Disturbance Receipts. Disturbance Receipts continued to form a significant proportion of new funds for the existing Trust until the agreement ended in August 2000. Over the years, the Disturbance Receipts amounted to just over £81 million. The Trust now relies chiefly on funds generated by investments on the world's Stock Exchanges. In 2008/09, around £4 million income was derived from investments in Shetland, valued at around £25 million, in SLAP, the land at Sullom Voe Terminal and the District Heating Scheme infrastructure.

The Trust does not distinguish between revenue and capital (income or expenditure) in its Trust Deed, and all of the Trust's funds are 'unrestricted' (see below). These two things together mean that although the general funds are shown as being in deficit in the statutory accounts, there are no practical consequences flowing from this.

#### Reserves Policy

The aim of the Trustees is to invest the reserves of the Trust to generate income to support charitable expenditure and to maintain the real value of the reserves in the long term. The current value (as at 31 March 2009) of the Trust's reserves that are invested to generate income (ie not the 'Donated Properties') is around £170 million, which covers expenditure for around 15 years.

Trustees will seek to control risk through proper diversification and will take advice, as appropriate, in determining the mix of asset types in its investments.

None of the Trust's funds are for restricted purposes. Trustees are free to determine how to apply their Unrestricted Reserves in a manner consistent with the Trust objectives and in line with its Budget Strategy.

#### Investment Performance

The Trust's capital has been invested by the Trustees in three main areas:

## Trustees' Report *(continued)*

- Shares and other securities quoted on the world's Stock Exchanges
- Cash on deposit
- Subsidiary companies

### Stock Exchanges

As at 31 March 2009, four fund managers managed the Trust's Stock Exchanges portfolio. Barclays Global Investors manage around £92 million invested in equities (shares), Insight Investment manage around £50 million in bonds and commercial property, and Record Currency Management manage around £2 million in currency.

This review covers the year to 31 March 2009, which contained the extraordinary downturn in the markets in the autumn of 2008. Trustees reviewed the investment strategy and decided to sit tight and not crystallise paper losses. Fortunately the Trust had built up cash reserves before the worst of the falls, which has avoided the need for precipitate reaction. A low point was reached at the beginning of March 2009. Since then around half the losses have been recovered. There are mixed signals on the short to medium term economic prospects, and Trustees and their advisers will review matters regularly. The markets were down in 2008/09 and the Trust experienced a negative return of 19%.

Representatives from the Trust's fund managers visit Shetland yearly in May and report to a meeting of the Trustees. In addition, a Trustee, normally the Chairman, accompanies the Financial Controller on monitoring visits. These take place yearly in November.

A separate firm, Northern Trust, is retained by the Trust to provide custody services, performance appraisal and analysis of the fund managers' handling of the portfolio. A representative of this company visits Shetland at least once a year, and reports to the Trustees at the May meeting attended by the fund managers.

The Trust uses Hymans Robertson as Investment Consultants. Hymans Robertson provide data and advice to help Trustees on strategic investment strategy (asset allocation) decisions, and on Fund Manager selection.

### Cash on Deposit

The Trust has entered into a Service Level Agreement with Shetland Islands Council whereby the Trust has access to the money markets at a level which it may not have been able to achieve on its own. Surplus cash has achieved at least base rate by this mechanism.

### Subsidiary Companies

Shetland Leasing and Property Developments Limited (SLAP) is a wholly owned subsidiary of the Trust, purchasing, developing and letting various properties throughout Shetland. SLAP gift aids its profits to the Trust. The Board has agreed a gift aid payment of just over £4.25 million to Shetland Charitable Trust in the financial year 2008/09. This mechanism means that neither body pays tax on these profits.

The Board of SLAP has decided, with the agreement of the Trust, that SLAP should concentrate on its core activities of leasing and property development. Disinvestment from direct investment in local businesses is effectively complete. The property portfolio is valued at over £15 million and it generated rental income of over £2.5 million in 2008/09. The Directors believe that this represents a very satisfactory 'commercial' rate of return.

SLAP (Trading) Limited is a wholly owned subsidiary of SLAP and was formed to undertake hire purchase and loan finance. A decision was taken in 2002 not to undertake any new hire purchase agreements, and with the existing agreements coming to an end, the company has become dormant, and is expected to be wound up shortly.

Shetland Heat Energy and Power Limited, a wholly owned subsidiary of the Trust, was set up to operate the Lerwick District Heating Scheme. After two start-up years which were loss-making (partly due to difficulties at the Council's incinerator, the principal source of heat for the scheme). The company has made profits, before the various returns to the Trust, for the eighth successive year. Investments in the District Heating Scheme Infrastructure made by the Trust since 1 April 2002 can be regarded as fully 'commercial'. A gift aid payment of £254,901 was made to the Trust in the financial year 2008/09. SHEAP has almost 1,000 customers receiving heat.

## **Trustees' Report** *(continued)*

C. T. Shetland (T. M.) Limited does not trade. The purpose of the company is to register and own certification trademarks, for example, the knitwear trademark known as *the Shetland Lady*.

Viking Energy Limited has entered into a 50:50 partnership with SSE Viking Ltd., a subsidiary of Scottish and Southern Energy plc. The partnership is a legal entity in its own right and is called Viking Energy Partnership, VEP. VEP has been investigating the technical, environmental and financial possibilities/consequences of developing a large windfarm in central Shetland. VEP lodged an application in May 2009 with the Scottish Government Energy Consents Unit for a 150 turbine (540MW) windfarm. The Trustees have set a budget of up to £3 million for this exploratory, investigative phase.

Trustees are not committed to go ahead with construction and operation of the windfarm, and will face further important decisions should consent be granted.

### **Decisions about Investments**

When the Trustees make decisions about investing the Trust's capital, the law requires them to seek appropriate advice and act as reasonably prudently as commercial investors would. An investor is concerned with various criteria when investing money; these include rate of return (dividends / income / rent / interest earned), capital growth, and just how safe the money is. It is easier to take hard decisions when the investments are on a Stock Exchange, but less so when they involve local concerns. Investment, wherever it is made, involves using Trust funds wisely so as to produce income and to increase the value of those funds. To do this properly the Trust has to act commercially. It cannot "act charitably" towards its investments. Trustees reviewed their long term investment strategy in 2008.

### **Current Financial Position**

As described in Section 3 above, the Trust agreed in 2002 that in future Trustees would update its financial policy and set new budget strategies on a triennial basis. Trustees have set a financial policy for the three years 2009/10 to 2011/12, of savings of at least £1 million per annum over that period.

## ***Section 6: Plans For The Future***

### **Trustees**

After a meeting in November 2008 with Office of the Scottish Charities Regulator (OSCR), Trustees have been asked to review the governance arrangements of the Trust. OSCR had concerns that the current structure and arrangements made it difficult to evidence independence and compliance with section 66 of the 2005 Act.

Trustees were asked to submit an action plan to OSCR by 1 July 2009, and it was agreed at the Trustees' meeting on 19 February 2009 to establish a Governance Review Group. The Governance Review Group has worked hard to prepare proposals to present to the full board of Trustees on the future governance of the Trust. Given the complex nature of this task, it has taken longer than initially anticipated to undertake this work, though draft proposals have now been drawn up. This work is ongoing and OSCR is being kept informed on progress.

### **Financial Position**

The three year plan covers the period until 31 March 2012, and expenditure needs to reduce by at least £1 million per annum by then if Trustees are to achieve their objective of financial self-sustainability. A Review Group has been set up to look at all the activities the Trust funds. The group has already identified areas where expenditure can be reduced with minimal impact on services.

### **Funded Bodies**

Trustees are likely to examine the performance monitoring process that the Trust currently uses and seek to develop it further. It has proved useful in the past for Trustees to receive presentations on activities and issues from the funded bodies, and Trustees may wish to repeat this process. A working group has been appointed to undertake a review of the bodies funded by the Trust, with a view to identifying possible savings.

### **Investment Strategy and Fund Manager Performance**

Trustees reviewed Investment Strategy in 2008, and instructed officers to implement various changes over a two year period. Fund Manager performance is reviewed by Trustees annually in May.

## **Statement of trustees' responsibilities in respect of the Trustees' report and the financial statements**

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements for each financial year which show a true and fair view of the state of affairs of the group and the charity and of the group's excess of income over expenditure for that period.

In preparing these financial statements, generally accepted accounting practice entails that the trustees:

- • select suitable accounting policies and then apply them consistently;
- • make judgements and estimates that are reasonable and prudent;
- • state whether the recommendations of the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- • state whether the financial statements comply with the Trust Deed, subject to any material departures disclosed and explained in the financial statements;
- • prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the charity will continue its activities.

The trustees are required to act in accordance with the Trust Deed of the charity, within the framework of trust law. They are responsible for keeping proper accounting records, sufficient to disclose at any time, with reasonable accuracy, the financial position of the charity at that time. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The trustees are responsible for the maintenance and integrity of the financial and other information included on the charity's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



37 Albyn Place  
Aberdeen  
AB10 1JB  
United Kingdom

## Independent auditors' report to the trustees of Shetland Charitable Trust

We have audited the group and charity financial statements ("the financial statements") of Shetland Charitable Trust for the year ended 31 March 2009 which comprise the Consolidated and Trust statement of financial activities, the Consolidated and Trust balance sheets, the Consolidated cash flow statement, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the charity's trustees as a body, in accordance with Section 44 (1) (c) of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 10 of the Charities Accounts (Scotland) Regulations 2006. Our audit work has been undertaken so that we might state to the charity's trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity and its trustees as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of trustees and auditors

The trustees' responsibilities for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Trustees' Responsibilities on page 14.

We have been appointed as auditors under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and report in accordance with the regulations made under that section of that Act. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006. We also report to you if, in our opinion, the Trustees' Annual Report is not consistent with the financial statements, if the charity has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Trustees' Annual Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and the charity's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the charity's affairs as at 31 March 2009 and of the group's incoming resources and application of resources for the year then ended; and
- have been properly prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006.

**KPMG LLP**  
Chartered Accountants  
Registered Auditor

Eligible to act as an auditor in terms of section 25 of the Companies Act 1989

2009

**Consolidated statement of financial activities**  
*for the year ended 31 March 2009*

	Note	Unrestricted funds		2009 Total £000	2008 Total £000
		General funds £000	Expendable endowment £000		
<b>Incoming resources</b>					
<i>Incoming resources from generated funds</i>					
Voluntary income	2	8,153	-	8,153	-
Activities for generating funds – trading subsidiaries		4,029	-	4,029	2,451
Investment income		4,360	-	4,360	8,684
<i>Other incoming resources</i>					
Rental income		1,337	-	1,337	1,644
Other income		268	-	268	390
<b>Total incoming resources</b>		<b>18,147</b>	<b>-</b>	<b>18,147</b>	<b>13,169</b>
<b>Resources expended</b>					
<i>Cost of generating funds</i>					
Expenditure of trading subsidiaries	7	(1,330)	-	(1,330)	(980)
Investment management costs		(386)	-	(386)	(1,216)
Bad debt provision		-	-	-	(621)
<i>Charitable activities</i>	3	(13,019)	(1,266)	(14,285)	(13,311)
<i>Governance costs</i>	3	(74)	-	(74)	(69)
<b>Total resources expended</b>		<b>(14,809)</b>	<b>(1,266)</b>	<b>(16,075)</b>	<b>(16,197)</b>
<b>Net (outgoing) incoming resources before other recognised gains and losses</b>		<b>3,338</b>	<b>(1,266)</b>	<b>2,072</b>	<b>(3,028)</b>
<b>Other recognised gains and losses</b>					
Losses on managed fund investments		-	(44,721)	(44,721)	(24,532)
Revaluation of tangible fixed assets		-	-	-	26
Actuarial (losses) gains in defined benefit pension scheme		(429)	-	(429)	232
<b>Net movement in funds</b>		<b>2,909</b>	<b>(45,987)</b>	<b>(43,078)</b>	<b>(27,302)</b>
<b>Fund balances brought forward</b>		<b>(19,125)</b>	<b>238,631</b>	<b>219,506</b>	<b>246,808</b>
<b>Fund balances carried forward</b>		<b>(16,216)</b>	<b>192,644</b>	<b>176,428</b>	<b>219,506</b>

All funds are unrestricted income funds. The incoming resources and resulting net movement in funds all arose from continuing operations. All gains and losses recognised in the year are included above.

**Trust statement of financial activities**  
*for the year ended 31 March 2009*

	Note	Unrestricted funds		2009 Total £000	2008 Total £000
		General funds £000	Expendable endowment £000		
<b>Incoming resources</b>					
<i>Incoming resources from generated funds</i>					
Voluntary Income	2	8,153	-	8,153	-
Investment income		4,360		4,360	8,684
Gift aid payment from subsidiary undertakings	7	4,508	-	4,508	3,098
<i>Other incoming resources</i>					
Rental income		1,337	-	1,337	1,644
Other income		268	-	268	390
<b>Total incoming resources</b>		<b>18,626</b>	<b>-</b>	<b>18,626</b>	<b>13,816</b>
<b>Resources expended</b>					
<i>Cost of generating funds</i>					
Investment management costs		(386)	-	(386)	(1,216)
Provision (made) released against equity investment		-	(303)	(303)	588
Bad debt provision		-	-	-	(621)
<i>Charitable activities</i>	3	(13,019)	(1,266)	(14,285)	(13,311)
<i>Governance costs</i>	3	(74)	-	(74)	(69)
<i>Other resources expended</i>					
Interest payable on loan from subsidiary		(1,529)	-	(1,529)	(2,157)
<b>Total resources expended</b>		<b>(15,008)</b>	<b>(1,569)</b>	<b>(16,577)</b>	<b>(16,786)</b>
<b>Net incoming (outgoing) resources before other recognised gains and losses</b>		<b>3,618</b>	<b>(1,569)</b>	<b>2,049</b>	<b>(2,970)</b>
<b>Other recognised gains and losses</b>					
Losses on managed fund investments		-	(44,721)	(44,721)	(24,532)
Actuarial (losses) gains in defined benefit pension scheme		(429)	-	(429)	232
<b>Net movement in funds</b>		<b>3,189</b>	<b>(46,290)</b>	<b>(43,101)</b>	<b>(27,270)</b>
<b>Total funds brought forward</b>		<b>15</b>	<b>219,408</b>	<b>219,423</b>	<b>246,693</b>
<b>Fund balances carried forward</b>		<b>3,204</b>	<b>173,118</b>	<b>176,322</b>	<b>219,423</b>

**Consolidated balance sheet**  
*at 31 March 2009*

	<i>Note</i>	2009		2008	
		£000	£000	£000	£000
<b>Fixed assets</b>					
Tangible assets	5		27,653		23,015
Investments:					
Investments	6	143,045		193,005	
Programme-related investments	7	6,789		7,152	
			<u>149,834</u>		<u>200,157</u>
<b>Total fixed assets</b>			<u>177,487</u>		<u>223,172</u>
<b>Current assets</b>					
Stocks		26		40	
Debtors	9	1,872		2,803	
Investments		12		3	
Cash at bank and in hand		7,073		6,268	
			<u>8,983</u>		<u>9,114</u>
<b>Creditors: amounts falling due within one year</b>	10	<u>(7,814)</u>		<u>(10,878)</u>	
<b>Net current assets (liabilities)</b>			<u>1,169</u>		<u>(1,764)</u>
<b>Total assets less current liabilities</b>			<u>178,656</u>		<u>221,408</u>
<b>Provisions for liabilities and charges</b>	12		<u>(1,466)</u>		<u>(1,578)</u>
<b>Net assets excluding pension liability</b>			<u>177,190</u>		<u>219,830</u>
Pension liability	15		<u>(762)</u>		<u>(324)</u>
<b>Net assets including pension liability</b>			<u>176,428</u>		<u>219,506</u>
<b>Represented by:</b>					
Expendable endowment	13		192,644		238,631
Unrestricted income funds:					
General funds	14		(5,597)		(6,244)
Trading funds	14		(9,883)		(12,583)
Revaluation reserve			26		26
			<u>(15,454)</u>		<u>(18,801)</u>
Unrestricted income funds excluding pension liability			<u>(15,454)</u>		<u>(18,801)</u>
Pension reserve	14		<u>(762)</u>		<u>(324)</u>
<b>Total unrestricted income funds</b>			<u>(16,216)</u>		<u>(19,125)</u>
<b>Total charity funds</b>			<u>176,428</u>		<u>219,506</u>

These financial statements were approved by the trustees on 3 November 2009 and were signed on their behalf by:

**WH Manson**  
Chairman

**JH Henry**  
Vice-Chairman

**Trust balance sheet**  
*at 31 March 2009*

	<i>Note</i>	2009 £000	2008 £000
<b>Fixed assets</b>			
Tangible assets	5	12,209	11,742
Investments:			
Investments	6	143,045	193,005
Programme-related investments	7	52,266	52,888
		<u>195,311</u>	<u>245,893</u>
<b>Total fixed assets</b>		<b>207,520</b>	<b>257,635</b>
<b>Current assets</b>			
Debtors	9	1,348	2,059
Investments		9	3
Cash at bank and in hand		5,305	2,642
		<u>6,662</u>	<u>4,704</u>
<b>Total current assets</b>		<b>6,662</b>	<b>4,704</b>
<b>Creditors: amounts falling due within one year</b>	10	<b>(1,598)</b>	<b>(4,592)</b>
		<u>5,064</u>	<u>112</u>
<b>Total assets less current liabilities</b>		<b>212,584</b>	<b>257,747</b>
<b>Creditors: amounts falling due outwith one year</b>	11	<b>(35,500)</b>	<b>(38,000)</b>
		<u>177,084</u>	<u>219,747</u>
<b>Net assets excluding pension liability</b>		<b>177,084</b>	<b>219,747</b>
Pension liability	15	(762)	(324)
		<u>176,322</u>	<u>219,423</u>
<b>Net assets including pension liability</b>		<b>176,322</b>	<b>219,423</b>
<b>Represented by:</b>			
Expendable endowment	13	173,118	219,408
Unrestricted income funds			
General funds	14	3,966	339
Pension reserve	14	(762)	(324)
		<u>3,204</u>	<u>15</u>
<b>Total unrestricted income funds</b>		<b>3,204</b>	<b>15</b>
		<u><u>176,322</u></u>	<u><u>219,423</u></u>

These financial statements were approved by the trustees on 3 November 2009 and were signed on their behalf by:

**WH Manson**  
*Chairman*

**JH Henry**  
*Vice-Chairman*

## Consolidated cash flow statement

for the year ended 31 March 2009

	2009	2008
	£000	£000
<b>Net cash outflow from operating activities</b>	<b>(3,956)</b>	<b>(10,071)</b>
<b>Returns on investment and servicing of finance</b>		
Investment income and interest received	4,390	8,400
<b>Capital expenditure and financial investment</b>		
Purchase of managed funds investments	(274,558)	(267,680)
Purchase of tangible fixed assets	(5,021)	(504)
Sale of managed funds investments	283,975	265,199
Sale of tangible fixed assets	-	263
Loans repaid	326	(1,217)
	<hr/>	<hr/>
<b>Net cash inflow (outflow) from capital expenditure and financial investment</b>	<b>4,722</b>	<b>(3,939)</b>
<b>Management of liquid resources</b>		
Net movement on in cash flows attributable to managed fund investments	(9,417)	2,481
Funds (deposited) withdrawn from short term deposit (net)	5,066	3,716
	<hr/>	<hr/>
<b>Increase in cash in the year</b>	<b>805</b>	<b>587</b>
	<hr/>	<hr/>

**Notes to the consolidated cash flow statement**  
*for the year ended 31 March 2009*

Reconciliation of net incoming (outgoing) resources to net cash outflow from operating activities	2009 £000	2008 £000
Net incoming (outgoing) resources	2,072	(3,028)
Investment income and interest receivable	(4,360)	(8,684)
Depreciation written off and impairment of tangible fixed assets	1,266	1,256
Movement in pension liability	9	13
Decrease (increase) in stock	14	(16)
Donated assets receivable	(973)	-
Decrease (increase) in debtors	931	(350)
Increase (decrease) in creditors	(3,064)	520
(Decrease) increase in provisions	149	218
	<hr/>	<hr/>
<b>Net cash outflow from operating activities</b>	<b>(3,956)</b>	<b>(10,071)</b>
	<hr/>	<hr/>
 <b>Reconciliation of net cash flow to movement in net funds</b>		
Increase in cash in the year	805	587
Cash outflow (inflow) from increase (decrease) in liquid resources	(5,066)	(3,716)
	<hr/>	<hr/>
Change in net funds resulting from cash flows	(4,261)	(3,129)
Net funds at the start of the year	13,057	16,186
	<hr/>	<hr/>
Net funds at the end of the year	8,796	13,057
	<hr/>	<hr/>
 <b>Net funds comprise:</b>		
Cash in hand held by investment managers	1,711	6,786
Temporary deposits	12	3
Cash at bank and in hand	7,073	6,268
	<hr/>	<hr/>
	<b>8,796</b>	<b>13,057</b>
	<hr/>	<hr/>

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Trust's financial statements. The amendment to FRS 17 'Retirement benefits' has been adopted in these financial statements for the first time and the disclosures it requires have been presented for both the current and comparative period. The amendment to FRS 17 also requires that quoted securities are valued at their current bid-price rather than their mid-market value. No adjustment has been applied to the comparative figures as the Trustees considered the effect of this change not to be material to the financial statements.

#### *Basis of preparation*

The financial statements have been prepared under the historical cost accounting rules, as modified by the revaluation of investments and in accordance with applicable accounting standards and the provisions of the Trust Deed, the Charities and Trustee Investment (Scotland) Act 2005, the Charities Accounts (Scotland) Regulations 2006 and the Statement of Recommended Practice "Accounting and Reporting by Charities" issued in March 2005.

#### *Basis of consolidation*

These financial statements consolidate the assets and liabilities of the charity and its wholly-owned subsidiaries, Shetland Leasing and Property Developments Limited and Shetland Heat Energy and Power Limited, on a line by line basis. The income and expenditure of these subsidiaries are also consolidated on a line by line basis where appropriate, with sufficient information being provided in note 6 to these financial statements to ensure that the non-consolidated results of the Trust and its subsidiaries are transparent.

The results of the Trust's other subsidiary undertakings are not consolidated as the Trustees consider them to be immaterial in aggregate to the Trust itself.

In accordance with FRS 21 *Events after the balance sheet date*, gift aid payments are accounted for in the year payments are actually made.

#### *Fund accounting*

All funds of the Trust are unrestricted, to be used in accordance with the charitable objectives of the Trust at the discretion of the trustees. The expendable endowment represents the long-term investment funds of the Trust. The unrestricted income funds include the Trust's general funds, which represent the annual operating funds of the Trust, and the trading funds.

The trading funds represent the accumulated results of Shetland Leasing and Property Developments Limited and Shetland Heat Energy and Power Limited adjusted to remove interest payable by the Trust to those companies and gift aid payments made to the Trust by those companies.

#### *Incoming resources*

##### *Activities for generating funds*

Turnover in Shetland Heat Energy and Power Limited represents the amounts (excluding value added tax) derived from the supply of steam and hot water heating systems and arises entirely in the United Kingdom.

Turnover in Shetland Leasing and Property Development Limited comprises rental income from the leasing of investment properties, the leasing of an aeroplane and the chartering of a vessel and arises entirely in the United Kingdom. Rental income from the operating lease of investment properties is recognised on a straight line basis over the period of the lease. Certain of the group's property developments and lease agreements provide for a notional rate of interest to be charged on development costs for the purpose of calculating the rental due. Such notional interest is not reflected in these financial statements, but will effectively be credited to the statement of financial activities over the lives of the relevant assets as a component of rental income.

## Notes (continued)

### 1 Accounting policies (continued)

Rental income included within accruals and deferred income in the balance sheet is credited to incoming resources over the period of the lease to which it relates.

#### *Investment income*

Dividends are included within incoming resources when they are receivable. Loan interest is included in the statement of financial activities on an accruals basis.

#### *Donated assets*

Tangible fixed assets donated to the Trust are accounted for as incoming resources within the expendable endowment at valuation or cost. The assets are depreciated in accordance with the Trust's depreciation policy.

#### *Resources expended*

Charitable expenditure is recognised when it is payable. The Trust has given commitments to certain charitable bodies to provide ongoing revenue funding and to finance various capital projects. In view of the long-term nature of these commitments which are subject to review, combined with the uncertainty as to the amounts involved, these commitments are accounted for only when irreversible decisions on funding are communicated to the charitable bodies.

Support costs are directly attributable to the Trust's charitable activities and are recorded within the "charitable activities" section of resources expended in the statement of financial activities.

#### *Cost of generating funds*

The cost of generating funds represents fund managers' fees.

#### *Governance costs*

Governance costs comprise the costs associated with the Trust's compliance with charity regulation and good practice and include related professional fees.

#### *Grants*

Capital based grants received by the Trust's subsidiary undertakings are included within accruals and deferred income in the balance sheet and credited to activities for generating funds over the estimated useful economic lives of the assets to which they relate.

#### *Investments*

Managed funds investments are stated at market value. Realised and unrealised gains and losses arising on these investments are taken to the expendable endowment and are included within other recognised gains and losses in the statement of financial activities. Where investments are transferred between investment managers, an amount equal to the unrealised gains or losses on the investments as at the time of transfer is taken to the expendable endowment.

Investments in subsidiary undertakings are stated at cost less provisions. Any provisions made against these investments are charged to the expendable endowment.

#### *Tangible fixed assets and depreciation*

All expenditure incurred on tangible fixed assets is capitalised irrespective of its value (ie there is no minimum level above which assets purchased are capitalised). Tangible fixed assets are capitalised at cost, with the exception of investment properties.

Depreciation is charged to the expendable endowment to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Buildings	-	7 to 10 years
Fixtures and fittings	-	3 to 5 years
Plant and machinery	-	10 years
Vessel and aircraft	-	10 years or 20 years

## Notes (continued)

### 1 Accounting policies (continued)

The asset value of the Sullom Voe site is being depreciated over its estimated remaining economic life of ten years commencing 1 April 2003, and the district heating scheme infrastructure is depreciated over a period of 30 years commencing on 1 April 2004. The depreciation is charged to the expendable endowment. No depreciation is provided in respect of freehold land.

Where the recoverable amount of a tangible fixed asset is found to be below its net book value, the asset is written down to its recoverable amount and the loss on impairment is charged to the relevant resources expended category in the statement of financial activities.

#### *Investment properties*

In accordance with Statement of Standard Accounting Practice No. 19 *Investment properties* (including properties held under leases with more than 20 years' unexpired lease term) are not depreciated or amortised but are revalued annually and the aggregate surplus or deficit is transferred to a revaluation reserve. Where a deficit arising on revaluation is expected to be permanent, the deficit is charged to resources expended in the period of revaluation. Reversals of deficits previously treated as permanent are credited to net incoming resources to the extent that the carrying value remains below cost.

#### *Taxation*

The Trust is recognised by HM Revenue & Customs as a charity for the purposes of Section 505(1) Income and Corporation Taxes Act 1988 and from capital gains tax by virtue of Section 145 Capital Gains Tax Act 1979. It is exempt from corporation tax on its charitable activities.

The charge or credit for taxation is based on the results of the consolidated subsidiary companies for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. The charge or credit is taken to expenditure of trading subsidiaries within the statement of financial activities. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

#### *Pension costs*

The Trust participates in the Local Government Pension Scheme administered by Shetland Islands Council. This scheme provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Trust in an independently administered fund.

The pension scheme assets are measured using market values. For quoted securities the mid-market price is taken as market value. The pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. Current service costs are recorded within resources expended. The net return obtained on scheme assets is recorded as investment income. Actuarial gains and losses are recognised immediately in other recognised gains and losses within the statement of financial activities.

#### *Stock*

Stocks are valued at the lower of cost and net realisable value.

#### *Cash and liquid resources*

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year.

## Notes (continued)

### 2 Incoming resources from generated funds – voluntary income

	Group 2009 £000	Charity 2009 £000	Group 2008 £000	Charity 2008 £000
Gifts and donations	7,180	7,180	-	-
Value of donated fixed assets (see note 5)	973	973	-	-
	<u>8,153</u>	<u>8,153</u>	<u>-</u>	<u>-</u>

### 3 Cost of activities in furtherance of the charity's objects

#### *Charitable expenditure*

The group's charitable expenditure, which mainly comprises grants payable in respect of the year, is summarised below:

	2009 £000	2008 £000
<b>General funds</b>		
Payments to charitable organisations	5,847	5,722
Project expenditure	5,223	4,763
Property advice and maintenance	1,247	1,190
Capital expenditure projects	286	-
Charitable Grants Repaid	(92)	-
	<u>12,511</u>	<u>11,675</u>
Total charitable grants	12,511	11,675
Support costs	508	415
	<u>13,019</u>	<u>12,090</u>
<b>Expendable endowment</b>		
Depreciation – see note 4	1,266	1,221
	<u>14,285</u>	<u>13,311</u>
Total resources expended on charitable activities	14,285	13,311

Included within project expenditure are the Trust's Christmas grants to pensioners and Social Assistance grants, both of which are payable to individuals. All other grants are payable to organisations. Further details of the group's charitable expenditure are included in Section 4 of the Trustees' Report.

#### *Support costs*

Support costs for the year of £508,000 (2008: £415,000) principally represent administration expenses and are all deemed to be attributable to the group's charitable activities. Included within administration expenses is £256,000 (2008: £258,000) in respect of staff costs (see note 3).

#### *Governance costs*

Governance costs totalling £74,000 (2008: £69,000) comprise the costs associated with the Trust's compliance with charity regulation and good practice. They include £30,000 (2008: £30,000) representing an appropriate apportionment of salary costs together with trustees' expenses (see note 3) and audit fees of £30,000 (2008: £25,000).

**Notes (continued)**

**3. Cost of activities in furtherance of the charity's objects (continued)**

	Group and charity	
	Total 2009	Total 2008
	£	£
Allocation of staff and support costs, including trustees' allowance and expenses (see note 4)	30	30
Other costs	14	14
External auditors' remuneration:		
Audit of these financial statements	30	25
Audit of subsidiary undertakings (excluded from charitable governance costs)	32	36
Other services: taxation in relation to subsidiary undertakings	15	16
<b>Total governance costs</b>	<b>74</b>	<b>69</b>

**4 Staff numbers and costs**

The group had an average of nine employees during the year (2008: nine). The aggregate payroll costs of these employees was as follows:

	2009 £000	2008 £000
Wages and salaries	211	206
Social security costs	17	16
Pension costs	28	36
	<b>256</b>	<b>258</b>

One employee (2008: one employee) received emoluments totalling between £60,000 and £69,999. Retirement benefits are accruing to this member of staff under a defined benefit pension scheme. No other employees received emoluments totalling in excess of £60,000 in either the current or previous financial year.

Two trustees, the chair and the vice-chair, received trustees' allowances totalling £7,500 (2008: £7,500) from the group during the year. Expenses totalling £1,837 (2008: £1,433) were reimbursed to 13 trustees (2008: 17 trustees) during the year.

**Notes (continued)**

**5 Tangible fixed assets**

Group	Land and buildings	District heating scheme infrastructure	Investment properties	Vessel and aircraft	Other	Total
<i>Cost or valuation</i>	£000	£000	£000	£000	£000	£000
At beginning of year	24,461	14,968	10,402	865	513	51,209
Additions	973	760	1,920		2,341	5,994
At end of year	25,434	15,728	12,322	865	2,854	57,203
<i>Depreciation</i>						
At beginning of year	16,503	11,184	-	254	253	28,194
Charge for year	1,084	182		34	56	1,356
At end of year	17,587	11,366	-	288	309	29,550
<i>Net book value</i>						
At 31 March 2009	7,847	4,362	12,322	577	2,545	27,653
At 31 March 2008	7,958	3,784	10,402	611	260	23,015

Land and buildings primarily consist of the site at Sullom Voe, plus the six rural care homes, previously operated by Shetland Welfare Trust, and donated to the Trust in 2007. The rural care homes have been previously funded by the Trust and the capital grant conditions applied to funding to Shetland Welfare Trust required any building owned by Shetland Welfare Trust to be transferred to the Trust when Shetland Welfare Trust ceased to operate (effectively 1 April 2006). These are specialised buildings in rural locations in Shetland without comparators, which means that it is not possible to establish a meaningful valuation for them in their present use. The trustees therefore capitalised them at original cost, in line with the Trust's accounting policy for tangible fixed assets, which they believed to be a reasonable indication of their value at the date they were donated. The buildings continue to be used as care homes, in furtherance of the Trust's charitable objects, and as such are not held for investment purposes.

The land and buildings addition for the year was the Garrison Theatre. Ownership of this building passed to the Trust on the winding up of the Islesburgh Trust. This building continues to be used as a theatre, in furtherance of the Trust's charitable objects, and as such is not held for investment purposes.

The investment properties were valued on an open market value for existing use basis as at 31 March 2008 by professionally qualified valuers. These valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual Practice Statements.

The net book value of other tangible fixed assets is analysed as follows:

	2009	2008
	£000	£000
Plant and machinery, fixtures and fittings held by Shetland Heat Energy and Power Limited	291	258
Assets under construction held by Shetland Leasing and Property Development Limited	2,254	2

**Notes (continued)**

**5 Tangible fixed assets (continued)**

Charity	Land and buildings £000	Donated Assets £000	District heating scheme infra- structure £000	Total £000
<i>Cost</i>				
At beginning of year	16,275	8,186	14,968	39,429
Additions	-	973	760	1,733
<b>At end of year</b>	<b>16,275</b>	<b>9,159</b>	<b>15,728</b>	<b>41,162</b>
<i>Depreciation</i>				
At beginning of year	14,865	1,638	11,184	27,687
Charge for year	170	914	182	1,266
<b>At end of year</b>	<b>15,035</b>	<b>2,552</b>	<b>11,366</b>	<b>28,953</b>
<i>Net book value</i>				
At 31 March 2009	1,240	6,607	4,362	12,209
At 31 March 2008	1,410	6,548	3,784	11,742

**6 Managed funds**

Group and Charity	2009 Market Value £000	2009 Cost £000	2008 Market Value £000	2008 Cost £000
<i>Listed investments:</i>				
British Government securities	25,615	26,252	27,174	26,564
Other UK fixed interest	17,654	20,091	14,898	15,713
Overseas fixed interest	2,619	2,639	4,807	3,828
	<b>45,888</b>	<b>48,982</b>	<b>46,879</b>	<b>46,105</b>
UK equities	44,914	61,964	90,865	101,007
Overseas equities	46,384	59,514	41,198	41,977
Property units	4,122	5,887	7,463	5,887
	<b>95,420</b>	<b>127,365</b>	<b>139,526</b>	<b>148,871</b>
Total investments	141,308	176,347	186,405	194,976
Cash on deposit and in hand	1,737	1,711	6,600	6,786
	<b>143,045</b>	<b>178,058</b>	<b>193,005</b>	<b>201,762</b>

**Notes (continued)**

**6 Managed funds (continued)**

	2009	2008
	£000	£000
<i>Reconciliation of market value of investments</i>		
Market value at beginning of year	193,005	214,962
Investments purchased	274,558	267,680
Investments sold	(283,975)	(265,199)
Losses on managed fund investments	(35,468)	(24,532)
Movement in investment managers' cash balances	(5,075)	94
	143,045	193,005

As at 31 March 2009, the Trust's funds other than programme-related investments are managed by Insight Investment Management, Barclays Global Investors, Capital International and Record Currency Management Limited. The split of the portfolio between the investment managers is as follows:

	2009	2009	2008	2008
	Market value	Cost	Market value	Cost
	£000	£000	£000	£000
Insight Investment Management	49,563	52,354	52,712	50,547
Barclays Global Investors	91,637	121,817	-	-
Capital International	50	50	137,781	148,702
Record Currency Management	1,795	3,837	2,512	2,512
	143,045	178,058	193,005	201,761

**7 Programme-related investments**

	Group		Charity	
	2009	2008	2009	2008
	£000	£000	£000	£000
Equity - see below	5,490	5,527	50,976	51,279
Loans - see note 8	1,299	1,625	1,290	1,609
	6,789	7,152	52,266	52,888

**Notes (continued)**

**7 Programme-related investments (continued)**

Equity - Group	Shares in subsidiary undertakings £000	Unlisted investments £000	Total £000
<i>Cost</i>			
At beginning of year	6,252	1,126	7,378
Disposals	(251)	(500)	(751)
	<hr/>	<hr/>	<hr/>
Cost at end of year	6,001	626	6,627
	<hr/>	<hr/>	<hr/>
<i>Provisions</i>			
At beginning of year	750	1,101	1,851
Provided in year	36	-	36
Disposals	(251)	(500)	(751)
	<hr/>	<hr/>	<hr/>
Provisions at end of year	535	601	1,136
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 March 2009	5,466	25	5,491
	<hr/>	<hr/>	<hr/>
At 31 March 2008	5,502	25	5,527
	<hr/>	<hr/>	<hr/>
Equity - Charity	Shares in subsidiary undertakings £000		
<i>Cost</i>			
At beginning of year			70,501
			<hr/>
			70,501
			<hr/>
<i>Provisions</i>			
At beginning of year			19,222
Increase in year			303
			<hr/>
At end of year			19,525
			<hr/>
<i>Net book value</i>			
At 31 March 2009			50,976
			<hr/>
At 31 March 2008			51,279
			<hr/>

**Notes (continued)**

**7 Programme-related investments (continued)**

The group's investments in subsidiary undertakings include its shareholdings in the following subsidiaries, the results of which are not included in these consolidated financial statements:

<i>Name</i>	<i>Nature of business</i>	<i>% owned</i>	<i>Direct/indirect ownership</i>
SLAP (Trading) Limited	Leasing and hire purchase	100	Indirect
Viking Energy Limited	Non-trading	90	Direct

SLAP (Trading) Limited and Viking Energy Limited have not been consolidated as the Trustees consider them to be immaterial in aggregate to the Trust itself. The shares in SLAP (Trading) Limited are directly owned by Shetland Leasing and Property Developments Limited.

The following is a summary of the audited accounts of SLAP (Trading) Limited.

	<b>Year end date</b>	<b>(Loss) profit for the financial year £000</b>	<b>Aggregate capital and reserves £000</b>
SLAP (Trading) Limited	31 March 2009	(6)	5,464

Viking Energy Limited did not trade as at 31 March 2009 and only commenced activities in August 2009.

As stated in note 1, these consolidated financial statements include the results of the charity's wholly owned trading subsidiaries, Shetland Leasing and Property Developments Limited (SLAP) and Shetland Heat Energy and Power Limited (SHEAP). The trading results of these companies are summarised below:

	<b>2009 SLAP £000</b>	<b>2009 SHEAP £000</b>	<b>2009 Total £000</b>	<b>2008 Total £000</b>
<b>Turnover</b>	2,477	1,394	3,871	2,088
<b>Cost of sales</b>	(152)	(601)	(753)	(598)
<b>Gross profit (loss)</b>	2,325	793	3118	1,490
Administration expenses	(163)	(526)	(689)	(454)
Gift aid payment to Shetland Charitable Trust	(4,253)	(255)	(4,508)	(3,098)
Other operating income	102	6	108	105
<b>Operating (loss) profit</b>	<b>(1,989)</b>	<b>18</b>	<b>(1,971)</b>	<b>(1,957)</b>
Reversal of investment property valuation deficit				288
Gain on disposal of investment properties				-
Interest receivable and similar income	1,565	15	1,580	2,415
Interest payable and similar charges				-
<b>Profit (loss) on ordinary activities before taxation</b>	<b>(424)</b>	<b>33</b>	<b>(391)</b>	<b>746</b>
Tax on profit (loss) on ordinary activities	121	(9)	112	(217)
<b>Profit (loss) on ordinary activities after taxation being profit (loss) for the financial year</b>	<b>(303)</b>	<b>24</b>	<b>(279)</b>	<b>529</b>

**Notes (continued)**

**7 Programme-related investments (continued)**

The expenditure of the companies, as recorded in the consolidated statement of financial activities, is analysed as follows:

	2009	2008
	Total	Total
	£000	£000
Cost of sales	753	598
Administration expenses	689	454
Reversal of investment property valuation deficit	-	(286)
Tax charge (credit) on profit on ordinary activities	(112)	214
	1,330	980
	1,330	980

Included within the companies' profit (loss) for the year is a total of £4,507,494 (2008: £3,097,911) paid to the Trust by way of gift aid which has been eliminated within the consolidated statement of financial activities.

The assets and liabilities of the subsidiaries were:

	2009	2009	2009	2008
	SLAP	SHEAP	Total	Total
	£000	£000	£000	£000
Tangible fixed assets	20,643	291	20,934	16,798
Current assets	37,164	708	37,872	42,448
Current liabilities	(5,802)	(341)	(6,143)	(6,087)
Creditors greater than one year	(1,530)	(52)	(1,582)	(1,799)
	50,475	606	51,081	51,360
	50,475	606	51,081	51,360
Called up share capital	70,000	500	70,500	70,500
Profit and loss account	(19,551)	106	(19,445)	(19,166)
Revaluation reserve	26	-	26	26
	50,475	606	51,081	51,360
	50,475	606	51,081	51,360

Further details of the subsidiary companies and of their tax charge (credit) for the year are included in their financial statements, copies of which may be obtained from Companies House, 37 Castle Terrace, Edinburgh.

**8 Programme-related investments – Loans**

	2009	2008
	£000	£000
<b>Group</b>		
Agricultural Ten Year Loan Scheme	1,361	1,669
Agricultural Bridging Loan Scheme	-	17
Provisions for doubtful debts	(71)	(77)
	1,290	1,609
Local loans granted by Shetland Leasing and Property Developments Limited (net of provisions)	9	16
	1,299	1,625
	1,299	1,625

**Notes (continued)**

**8 Programme-related investments – Loans (continued)**

Charity	2009 £000	2008 £000
Agricultural Ten Year Loan Scheme	1,361	1,669
Agricultural Bridging Loan Scheme	-	17
Provisions for doubtful debts	(71)	(77)
	1,290	1,609

**9 Debtors**

	Group		Charity	
	2009 £000	2008 £000	2009 £000	2008 £000
Trade debtors	478	763	-	-
Amounts owing from subsidiary undertaking	-	-	42	22
Prepayments and accrued income	1,282	1,688	1,218	1,686
Other debtors:				
Loan repayments due	15	30	15	30
VAT recoverable	26	21	5	21
Tax recoverable	-	-	-	-
Sundry debtors	71	301	68	300
	1,872	2,803	1,348	2,059

**10 Creditors: amounts falling due within one year**

	Group		Charity	
	2009 £000	2008 £000	2009 £000	2008 £000
Trade creditors	92	91	-	-
Rents in advance	76	63	-	-
Amounts owed to SICCT 1976	-	2,903	-	2,903
Amount owed to subsidiary undertakings	5,450	5,450	-	-
Other tax and social security	490	308	478	-
Other creditors and accruals	1,706	2,063	1,120	1,689
	7,814	10,878	1,598	4,592

**11 Creditors: amounts falling due after more than one year**

Charity	2009 £000	2008 £000
Loan from subsidiary undertaking	35,500	38,000
	35,500	38,000

The loan of £35,500,000 (2008: £38,000,000) from Shetland Leasing and Property Developments Limited represents an unsecured loan which is repayable between 2009 and 2012. It bears interest at a rate of 0.25% over base rate.

**Notes** *(continued)*

**12 Provisions for liabilities and charges**

<b>Group</b>	<b>Deferred taxation</b>
	<b>£000</b>
At beginning of year	1,578
Credit for the year	(114)
Charge relating to a prior year	2
	<hr/>
At end of year	1,466
	<hr/> <hr/>

The deferred tax liability arising within the Trust's subsidiary companies at the year end of £1,466,000 (2008: £1,578,000) is analysed as follows:

	2009	2008
	£000	£000
Accelerated capital allowances	324	342
Other timing differences: Gift aid	1,072	1,184
Other timing differences	70	52
	<hr/>	<hr/>
	1,466	1,578
	<hr/> <hr/>	<hr/> <hr/>

**13 Expendable endowment**

	<b>Group Total</b>	<b>Charity Total</b>
	<b>£000</b>	<b>£000</b>
At beginning of year	238,631	219,408
Incoming resources	-	-
Outgoing resources	(1,266)	(1,569)
Losses in the year	(44,721)	(44,721)
	<hr/>	<hr/>
At end of year	192,644	173,118
	<hr/> <hr/>	<hr/> <hr/>

**Notes (continued)**

**14 Unrestricted income funds**

Group	General funds £000	Trading funds £000	Revaluation reserve £000	Pension reserve £000	Total unrestricted income funds £000
At beginning of year	(6,244)	(12,583)	26	(324)	(19,125)
Net movement in funds	647	2,700	-	(438)	2,909
At end of year	<u>(5,597)</u>	<u>(9,883)</u>	<u>26</u>	<u>(762)</u>	<u>(16,216)</u>
<b>Charity</b>					
At beginning of year			339	(324)	15
Net incoming resources before other recognised gains and losses			3,618	-	3,618
Actuarial losses			-	(429)	(429)
Transfer to (from) pension reserve			9	(9)	-
At end of year			<u>3,966</u>	<u>(762)</u>	<u>3,204</u>

The deficit balance on the trading funds of £9,883,000 (2008: £12,583,000) represents the accumulated results of Shetland Leasing and Property Developments Limited and Shetland Heat Energy and Power Limited, adjusted to remove the interest payable by the charity to those companies, and also the net gift aid payments made to the charity by those companies. The deficit balance on the consolidated general funds excluding pension reserve of £5,597,000 (2008: £6,244,000) represents the balance on the Trust's own general funds adjusted for those interest and gift aid payments. The balance on the Trust's own unrestricted funds at the year end, excluding pension deficit of £762,000 (2008: £324,000) was a surplus of £3,966,000 (2008: £339,000).

**15 Pension scheme**

The Trust participates in the Shetland Islands Council Pension Fund which provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Trust. The information disclosed below is in respect of the Trust's share of the assets and liabilities throughout the periods shown.

The latest full actuarial valuation was carried out at 31 March 2008 and was updated for FRS 17 purposes to 31 March 2009 by a qualified independent actuary.

	2009 £000	2008 £000
Present value of funded defined benefit obligations	(1,514)	(1,457)
Fair value of plan assets	866	1,254
Present value of unfunded defined benefit obligations	(648)	(203)
	(114)	(121)
Net (liability)	<u>(762)</u>	<u>(324)</u>

**Notes** *(continued)*

**15 Pension scheme** *(continued)*

Movements in present value of defined benefit obligation:

	2009 £000	2008 £000
At 1 April	1,578	1,846
Current service cost	48	64
Interest cost	110	101
Actuarial losses / (gains)	(89)	(427)
Contributions by members	21	20
Benefits paid	(40)	(26)
	1,628	1,578
At 31 March	1,628	1,578

Movements in fair value of plan assets:

	2009 £000	2008 £000
At 1 April	1,254	1,303
Expected return on plan assets	93	100
Actuarial gains / (losses)	(518)	(195)
Contributions by employer	56	52
Contributions by members	21	20
Benefits paid	(40)	(26)
	866	1,254
At 31 March	866	1,254

Expense recognised in the statement of financial activities:

	2009 £000	2008 £000
Current service cost	(48)	(64)
Interest on defined benefit pension plan obligation	(110)	(101)
Expected return on defined benefit pension plan assets	93	100
	(65)	(65)
Total	(65)	(65)

The expense is recognised in the following line items in the statement of financial activities:

	2009 £000	2008 £000
Charitable activities – support costs	(65)	(65)
	(65)	(65)

The total amount recognised in the other recognised gains and losses section of the statement of financial activities is a loss £429,000 (2008: gain of £232,000).

**Notes** *(continued)*

**15 Pension scheme** *(continued)*

The fair value of the plan assets and the return on those assets were as follows:

	2009 Fair value £000	2008 Fair value £000
Equities	684	1,050
Corporate bonds	78	73
Property	52	59
Cash	52	72
	<u>866</u>	<u>1,254</u>
Actual return on plan assets	<u>(322)</u>	<u>(95)</u>

The expected rates of return on plan assets are determined by reference to the historical actual returns on the Fund as provided by the administering authority and index returns where necessary.

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	2009 %	2008 %
Discount rate	6.9	6.9
Expected rate of return on plan assets	6.6	7.3
Future salary increases	4.6	5.1
Inflation / pension increase rate	<u>3.1</u>	<u>3.6</u>

In valuing the liabilities of the pension fund at 31 March 2009, mortality assumptions have been made as indicated below. The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

Current pensioner aged 65: 20.7 years (male), 23.8 years (female).

Future retiree upon reaching 65: 22.0 years (male), 25.0 years (female).

**History of plans**

The history of the plans for the current and prior periods is as follows:

*Balance sheet*

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Present value of scheme liabilities	(1,628)	(1,578)	(1,846)	(1,851)	(1,439)
Fair value of scheme assets	866	1,254	1,303	1,151	1,253
(Deficit) / surplus	<u>(762)</u>	<u>(324)</u>	<u>(543)</u>	<u>(700)</u>	<u>(186)</u>

**Notes** (continued)

**15 Pension scheme** (continued)

*Experience adjustments*

	2009 £000/%	2008 £000/%	2007 £000/%	2006 £000/%	2005 £000/%
Experience adjustments on scheme liabilities [as a percentage of scheme liabilities]	(86) / 9.6	3 / 0.2	(35) / (1.9)	(279) / (15)	(2) / (0.1)
Experience adjustments on scheme assets [as a percentage of scheme assets]	(518) / (59.8)	(195) / (15.6)	12 / 0.9	149 / 12.9	32 / 2.6

The Trust expects to contribute approximately £54,000 to its defined benefit plans in the next financial year to 31 March 2010.

**16 Related parties**

In the normal course of business, some of the Trustees of the Trust naturally are appointed as directors or as trustees of other organisations and charitable bodies within the Shetland Islands, including those which the Trust may from time to time transact with, either through routine business or in the provision of charitable grants. These relationships are not considered to be related party transactions as in no instance is the level of mutual trustees such as to provide direct or indirect control, or to place the Trustees in a position where they are able to provide influence over the financial and operating policies of the other organisations.

The Trustees of the Trust are also the trustees of SICCT 1976, as a body. SICCT 1976 was the forerunner organisation to the Trust, however, all charitable activity has essentially transferred to the Trust and the trustees of SICCT 1976 have applied to the Office of the Scottish Charity Regulator for consent to transfer the remaining assets of SICCT 1976 to the Trust and to wind up SICCT 1976 as at 31 March 2009. Consent was granted on 29 August 2009. As at 31 March 2009, SICCT 1976 has no activities, assets or liabilities. The Trust received payment of £3.023 million (2008: £13,000) from SICCT 1976 during the year, with an amount owing to SICCT 1976 at 31 March 2009 of £nil (2008: £2.903 million).

As disclosed in Note 6, the Trust does not consolidate the activities of SLAP (Trading) Limited within these financial statements as the trustees do not consider the results material to that of the Trust. SLAP (Trading) Limited is a wholly-owned subsidiary of the Trust's subsidiary undertaking Shetland Leasing and Property Development Limited, which is consolidated within these financial statements. WH Manson, JH Henry, AJ Cluness, AGL Duncan, CHJ Miller, IJ Hawkins and AS Wishart are also directors of SLAP (Trading) Limited. At the year end Shetland Leasing and Property Development Limited owed SLAP (Trading) Limited a total amount of £5,450,000 (2008: £5,450,000). This includes a loan of £5,450,000 (2008: £5,450,000) which bears no interest and is repayable in three instalments, commencing in March 2010. The loan is, however, repayable on demand, and given the intention of the directors of SLAP (Trading) Limited to consider the winding up of the company, the loan has been classified as payable within one year as the company is likely to seek repayment as part of this process. This balance is shown within creditors due within one year within the consolidated financial statements of the Trust.

**SHETLAND CHARITABLE TRUST**  
**Balance Sheet as at 31 March 2009**

**Appendix B**

	2008/09 £ million	2008/09 £ million	2007/08 £ million	2007/08 £ million
<b>Fixed Assets including Donated Properties</b>		12.2		11.7
<b>Managed funds</b>		143.0		193.0
<b>Local investments</b>				
Equity	51.0		51.3	
Agricultural loans	<u>1.2</u>		<u>1.6</u>	
<b>Current assets</b>		52.2		52.9
Debtors	1.4		2.0	
Bank	<u>5.3</u>		<u>2.6</u>	
	6.7		4.6	
<b>Less current liabilities</b>				
Creditors	<u>-1.6</u>		<u>-4.5</u>	
<b>Net current assets</b>		5.1		0.1
<b>SLAP Borrowing</b>		-35.5		-38.0
<b>Pension Liability</b>		-0.7		-0.3
		<u>176.3</u>		<u>219.4</u>
<b>Financed by</b>				
Reserves b/fwd		219.4		246.1
Deficit for year		-50.2		-25.9
Movement on donated properties		<u>7.1</u>		<u>-0.8</u>
		<u>176.3</u>		<u>219.4</u>

**SHETLAND CHARITABLE TRUST**

**Summary of the Movements on the Revenue and Capital Accounts for the Year Ended 31 March 2008**

**Appendix B**

	2008/09 £ million	2008/09 £ million	2007/08 £ million	2007/08 £ million
<b>Fund Managers</b>				
Dividends and Interest	4.4		8.7	
Capital Movements	-44.7		-24.5	
Fees	-0.4		-1.2	
	<u>-40.7</u>		<u>-17.0</u>	
<b>Local Investments</b>				
Ag. Loan Interest	0.1		0.1	
SLAP/SHEAP Profits	4.1		4.0	
Rents, Less Depreciation	1.3		1.6	
Interest on SLAP loans	-1.5		-2.2	
	<u>4.0</u>		<u>3.5</u>	
<b>TOTAL INVESTMENT RETURNS</b>	<u>-36.7</u>		<u>-13.5</u>	
<b>Expenditure</b>				
Charitable	-12.5		-12.1	
Administration	-0.6		-0.5	
Movement In Pension Liability	-0.4		0.2	
	<u>-13.5</u>		<u>-12.4</u>	
<b>DEFICIT FOR THE YEAR</b>	<u>-50.2</u>		<u>-25.9</u>	
<b>OPENING NET ASSETS</b>	219.4		246.1	
<b>Donated Properties</b>				
New Donations	8		0.0	
Depreciation on Donated Properties	-0.9		-0.8	
<b>MOVEMENT ON DONATED PROPERTIES</b>	<u>7.1</u>		<u>-0.8</u>	
<b>CLOSING NET ASSETS</b>	<u>176.3</u>		<u>219.4</u>	

KPMG LLP  
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DX 551780 Aberdeen 20

**Private & confidential**

The Trustees  
Shetland Charitable Trust  
22-24 North Road  
Lerwick  
Shetland  
ZE1 0NQ

Our ref djw/km/207

Contact David Watt  
0141 300 5695

23 October 2009

**DRAFT**

Dear Sirs

**Shetland Charitable Trust**  
**Audit: Year ended 31 March 2009**

International Standard on Auditing 260 (ISA 260) *Communication of audit matters with those charged with governance* requires auditors to communicate matters relating to the audit of the accounts to those charged with governance of a body in sufficient time to enable appropriate action.

ISA 260 requires us to highlight:

- the integrity and objectivity of the audit engagement lead and audit staff;
- the nature and scope of the audit, including any limitations, and the form of reports expected to be made;
- expected modifications to the audit report;
- the representation letter that we are requesting the Trustees to sign;
- unadjusted misstatements (other than those which are clearly trifling);
- material weaknesses in the accounting and internal control systems identified during the audit;
- views about the qualitative aspects of accounting practices and financial reporting; and
- matters specifically required by other auditing standards to be communicated and any other matter relevant to the audit.

We therefore wish to highlight the following matters:

- following your approval, we intend to issue an unqualified opinion on the financial statements of the Trust for the year ended 31 March 2009;



*KPMG LLP  
Shetland Charitable Trust  
Audit: Year ended 31 March 2009  
23 October 2009*

- confirmation of our independence to act as your auditors is provided in appendix one to this letter;
- a copy of the representation letter which we require you to approve and sign has been provided in appendix two;
- there are no unadjusted audit differences, as management have processed all adjustments identified as a result of our audit;
- there were no material adjustments required to the draft financial statements provided for audit; and
- no material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

There are no issues which require to be brought to your attention regarding the appropriateness of the accounting policies or accounting estimates and judgements, the timing of transactions, the existence of any material unusual transactions or the potential effect on the financial statements of any uncertainties.

Following discussion with HM Revenue and Customs over the tax treatment of the Christmas bonus scheme, an agreement has been reached to pay additional tax in respect of this matter, albeit that the level of settlement has not been finalised. An estimate of the likely settlement value of £477,841 was processed in the financial statements to reflect this liability. It is noted that revised arrangements have been agreed to ensure that future grants are better targeted to those in financial need as a means of minimising tax exposures.

The Trustees' report includes reference to the ongoing discussions with the Office of the Scottish Charity Regulator regarding the Trust's governance arrangements and the establishment of a governance review group to evaluate options for the future governance of the Trust. In our view it is important from a regulatory perspective that OSCR's concerns are addressed, including the relationship of the Trust to Shetland Islands Council.

This letter includes only those matters of governance interest that have come to our attention as a result of our audit. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. The letter has been prepared for the use of the Trustees of the Shetland Charitable Trust and no responsibility to any third party is accepted.

Finally, we would like to express our thanks to members of staff for the help and assistance received during the audit of this year's financial statements.

Yours faithfully

KPMG LLP



## **Appendix one – Confirmation of independence**

Professional ethical standards require us to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of David Watt and the audit team. This statement is intended to comply with this requirement.

We have considered the fees paid to us by the Trust and its related entities for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

### **General procedures to safeguard independence and objectivity**

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Directors and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings. Our Ethics and Independence Manual is fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Trustees.

### **Confirmation of audit independence**

We confirm that as of 23 October 2009, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Trustees and should not be used for any other purposes.

**KPMG LLP**



**Appendix two – Management representation letter of Shetland Charitable Trust**

KPMG LLP  
37 Albyn Place  
Aberdeen  
AB10 1JB  
United Kingdom

3 November 2009

Dear Sirs

This representation letter is provided in connection with your audit of the group and charity financial statements (“the financial statements”) of the Shetland Charitable Trust (“the Charity”), for the purpose of expressing an opinion as to whether these financial statements give a true and fair view of the group and charity’s financial position of the Shetland Charitable Trust and of the financial performance of the group in accordance with UK Generally Accepted Accounting Practice. These financial statements comprise the consolidated and trust balance sheets as at 31 March 2009, and the consolidated and trust statements of financial activities, and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

We acknowledge as Trustees of the Charity our responsibilities under the Charities and Trustee Investment (Scotland) Act 2005 and regulations thereunder for preparing financial statements which give a true and fair view of the group and charity.

We also acknowledge as Trustees our responsibilities under Charities and Trustee Investment (Scotland) Act 2005 and regulations thereunder for making accurate representations to you and for ensuring that there is no relevant audit information that you are unaware of.

The Trustees approve the financial statements.

The Trustees understand that auditing standards require you to obtain representations from directors on matters that are material to your opinion. The Trustees understand that omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

The Trustees have made appropriate inquiries of officers and staff of the Charity with the relevant knowledge and experience. Accordingly, the Trustees confirm, to the best of their knowledge and belief, the following representations:

1. The financial statements referred to above, which have been prepared on a going concern basis, give a true and fair view in accordance with UK Generally Accepted Accounting Practice.
2. All the accounting records have been made available to you for the purpose of your audit, and the full effect of all the transactions undertaken by the Charity have been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management and Trustees’ meetings and, when



- applicable, summaries of actions of meetings held after period end for which minutes have not yet been prepared, have been made available to you.
3. The Trustees are not aware of any known actual or possible non-compliance with laws and regulations that could have a material effect on the ability of the Charity to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2009.
  4. The Trustees:
    - (a) understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements including omissions of amounts or disclosures in the financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.
    - (b) acknowledges responsibility for the design and implementation of internal control to prevent and detect fraud and error.
    - (c) has disclosed to you its knowledge of fraud or suspected fraud affecting the Charity involving:
      - management and those charged with governance;
      - employees who have significant roles in internal control; or
      - others where the fraud could have a material effect on the financial statements.
    - (d) has disclosed to you its knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
    - (e) has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  5. The Trustees confirm the completeness of the information provided to you regarding the identification of related parties and regarding transactions with such parties that are material to the financial statements. The identity of, and balances and transactions with, related parties have been properly recorded and when appropriate, adequately disclosed in the notes to the financial statements. The Trustees are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 *Related party disclosures* or other requirements. Included in Appendix A to this letter are the definitions of both a related party and a related party transaction as the Trustees understand them and as defined in FRS 8.
  6. Presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with UK Generally Accepted Accounting Practice. The amounts disclosed represent the Trustees' best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and such assumptions appropriately reflect the Trustees' intent and



ability to carry out specific courses of action on behalf of the Charity where relevant to the fair value measurements or disclosures.

7. The Trustees have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and has disclosed in the notes to the financial statements all guarantees given to third parties.
8. The estimated financial effect of pending or threatened litigation and claims against the Charity has been properly recorded and/or disclosed in the financial statements. Except as disclosed in the notes to the financial statements, the Trustees are not aware of any additional claims that have been or are expected to be received.
9. Except as disclosed in the financial statements or notes thereto there are no:
  - (a) other gain or loss contingencies or other liabilities that are required to be recognised or disclosed in the financial statements, including liabilities or contingencies arising from environmental matters resulting from illegal or possibly illegal acts, or possible violations of human rights legislation; or
  - (b) other environmental matters that may have a material impact on the financial statements.
10. The Trustees confirm that:
  - a) the financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Charity's ability to continue as a going concern as required to provide a true and fair view.
  - b) any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Charity to continue as a going concern.
11. On the basis of the process established by the Trustees and having made appropriate enquiries, the Trustees are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business. The Trustees further confirm that:
  - (a) all significant retirement benefits, including any arrangements that are statutory, contractual or implicit in the employer's actions; arise in the UK and the Republic of Ireland or overseas; are funded or unfunded; and are approved or unapproved, have been identified and properly accounted for; and
  - (b) all settlements and curtailments have been identified and properly accounted for.

The Charity's participation in the Shetland Islands Council Pension Fund has been accounted for in the group and charity financial statements. There are no other schemes of any significance.

This letter was tabled and agreed at the meeting of the Trustees on 3 November 2009.

Yours faithfully

WH Manson  
Chair, on behalf of the Trustees



## **Appendix A to the Management Representation Letter of the Shetland Charitable Trust**

### **Definitions**

- A. Two or more parties are related parties when at any time during the financial period:
- (i) One party has either direct or indirect control of the other party; or
  - (ii) the parties are subject to common control from the same source; or
  - (iii) one party has influence over the financial and operating policies of the other party to an extent that that other party might be inhibited from pursuing at all times its own separate interests; or
  - (iv) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.
- B. For the avoidance of doubt, the following are related parties of the reporting entity:
- (i) its ultimate and intermediate parent undertakings, subsidiary undertakings, and fellow subsidiary undertakings;
  - (ii) its associates and joint ventures;
  - (iii) the investor or venturer in respect of which the reporting entity is an associate or a joint venture;
  - (iv) trustees<sup>1</sup> of the reporting entity and the trustees of its ultimate and intermediate parent undertakings; and
  - (v) pension funds for the benefit of employees of the reporting entity or of any entity that is a related party of the reporting entity.
- C. The following are presumed to be related parties of the reporting entity unless it can be demonstrated that neither party has influenced the financial and operating policies of the other in such a way as to inhibit the pursuit of separate interests:
- (i) the key management of the reporting entity and the key management of its parent undertaking or undertakings;
  - (ii) a person owning or able to exercise control over 20 per cent or more of the voting rights of the reporting entity, whether directly or through nominees;
  - (iii) each person acting in concert in such a way as to be able to exercise control or influence over the reporting entity; and
  - (iv) an entity managing or managed by the reporting entity under a management contract.
- D. Additionally, because of their relationship with certain parties that are, or are presumed to be, related parties of the reporting entity, the following are also presumed to be related parties of the reporting entity:
- (i) members of the close family of any individual falling under parties mentioned above in A to C; and
  - (ii) partnerships, companies, trusts or other entities in which any individual or member of the close family in a to C above has a controlling interest.

<sup>1</sup> Trustees include shadow trustees, which are defined in companies legislation as persons in accordance with whose directions or instructions the trustees of the Trust are accustomed to act.



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**REPORT****To:** Shetland Charitable Trust

3 November 2009

**From:** Financial Controller

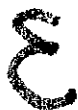
Report: CT0911080

**DISTRICT HEATING SCHEME – MONITORING REPORT, 2009****1. Introduction**

- 1.1 The District Heating Scheme continues to be successful, both in the engineering sense and as an investment. There are two purposes for this report.
- 1.2 The first purpose of this report is to convey financial and other data to Trustees to enable Trustees to monitor the project. The principal period of interest will be that since the last monitoring report a year ago (min ref CT 60/08). The main new source of information now available is the annual accounts of Shetland Heat Energy and Power Limited ('SHEAP') for the year ended 31 March 2009. These show a profit of £307,161 before returns to the Trust. They are summarised in Appendix A.
- 1.3 The second purpose of this report is to report the outcomes of the updated 2009 Business Plan for SHEAP. The Business Plan is the key tool whereby the Directors balance the need to generate sufficient profits to justify the Trust's investment against an aim to keep the tariffs below those for the alternatives, for the benefit of the Shetland economy.

**2. Background**

- 2.1 The Trust has invested directly into the District Heating Scheme infrastructure (boilers, pipes, pumping stations etc). The Trust owns the operating company, SHEAP. SHEAP purchases the heat produced by the Shetland Islands Council's Energy Recovery Plant (the incinerator). The ERP and the District Heating Scheme together are key elements of Shetland's Waste Management Strategy.
- 2.2 Construction of the Scheme's infrastructure began in 1997, with the first customer connected in 1998. The Scheme continued to grow and Trustees noted (min. ref. 115/01) that the £8.5 million (net of grants) spent by the Trust on District Heating Scheme infrastructure



up to 31 March 2002 should be valued at £nil on a commercial investment basis. At this point Trustees decided that further investment would only take place if returns at a commercial rate were in prospect. Trustees have invested a further £5.2 million in the Scheme up until 31 March 2009 on a fully commercial investment basis. £350,000 of this has been used to finance the construction of a large hot water tank that is used to store heat to be released at periods of peak demand (and so saving on oil costs). £250,000 has been used to finance a second large peak load boiler. The rest has been used to extend the network and connect customers, with SHEAP now having over 950 customers, about 100 of which are business customers.

- 2.3 The pace of investment has slowed as the Scheme is now close to capacity, unless a major new source of heat can be found. The investment budget currently in place for this year is £450,000, and Trustees have agreed £350,000 for 2010/11 with indicative sums of £100,000 included in the Trust's Financial Plan for future years.

### 3. Current Position and 2008/09 Accounts

- 3.1 Over the years SHEAP has turned initial losses into profits as follows:

Period	Actual	Target
15months to 31 March 1999 Loss	£(66,452)	n/a
Year ended 31 March 2000 Loss	£(122,975)	n/a
Year ended 31 March 2001 Loss	£(120,869)	n/a
Year ended 31 March 2002 Profit	£47,313	n/a
Year ended 31 March 2003 Profit *	£61,331	0
Year ended 31 March 2004 Profit *	£107,361	0
Year ended 31 March 2005 Profit *	£122,385	£44,000
Year ended 31 March 2006 Profit *	£148,242	£112,000
Year ended 31 March 2007 Profit *	£219,429	£193,000
Year ended 31 March 2008 Profit *	£225,982	£261,000
Year ended 31 March 2009 Profit *	£307,161	£296,000

\* Before distributions to the Trust

These figures are shown after taking into account the payment to the Council for the heat. This payment was £177,281 in 2008/09, up from £99,921 in 2007/08.

- 3.2 The trend shown in the table above is pleasing. Losses become profits and then grow to over £300,000.
- 3.3 I am satisfied that the Trust's investments since 1 April 2002 remain fully commercial. The key comparison is the level of profits against the 'target' of returning the Trust's capital plus 5% pa over thirty

years. This return (capital plus 5% - real) from a secure, utility investment meets the 'commercial' investment test, in my opinion. The 2008/09 profit of £307,161 is slightly above the target of £296,000 for that year, and the overall profits since 2002 remain well above target.

- 3.4 The last two years have seen tremendous movements in the price of oil, from \$40 a barrel up to above \$140 a barrel at the peak and back down to the current level of around \$70 a barrel. SHEAP burns oil at peak times and when the incinerator is serviced. However, the higher price of oil has meant that tariffs have been increased, but still remain very competitive compared to oil or electric heating.

#### **4. Future Prospects and 2009 Business plan**

- 4.1 The Scheme is not far away from capacity, i.e. it cannot support many more customers without another source of heat.
- 4.2 The Scheme covers much of Lerwick, with the main areas not served at present being parts of Twageos, the Esplanade area, the old North Road/Staney Hill area (which would need a pumping station) and Upper Sound (here there is already a pumping station at Quoys). Further expansion of the Scheme would require a second significant source of heat. Staff at SHEAP and the Board are exploring possibilities, but meantime it looks likely that this year 2009/10 and next year 2010/11 will be quiet years for the Scheme, at least in terms of expansion.
- 4.3 Several scenarios were examined in the 2008 Business Plan, but the central one assumed that no significant new source of heat will be introduced in the next few years and this model has been updated to give the revised 2009 Business Plan. This means concentrating on connecting up customers who had applied before the cut off of 31 March 2007. The 2009 Business Plan has been adopted by the SHEAP Board.
- 4.4 Trustees have agreed to set three year investment budgets for the scheme. The current year (2009/10) investment budget for District Heating Scheme infrastructure is £450,000, with £350,000 agreed for 2010/11. The projections in the 2009 Business Plan have been prepared assuming that Trustees agree a new budget for the third year (2011/12), and shows that profits can be expected at a level above the necessary target to provide a commercial return on the Trust's investment of £300,000. I will be recommending that Trustees agree to the request on that basis. The investment funds over the three years will be used to replace coolers at the Energy Recovery Plant and to progress connections to those on the waiting list. Unless a new source of heat becomes available, it is expected that investment will fall off to £100,000 pa from 2012/13 onwards.

- 4.5 The financial projections in the 2009 Business Plan contain two scenarios, examining the effect of variations in the future price of oil. These show that if oil prices increase, the Board will need to set the tariff charged at higher levels to maintain the return to the Charitable Trust. The aim is to keep the tariff in the range of 20%-30% cheaper than other means of heating (oil, storage heaters). The SHEAP Board agreed an increase in tariffs with effect from 1 October 2009.

## **5. Possible Developments Outwith Lerwick**

- 5.1 The SHEAP Board and associated officers have followed progress elsewhere on small (20 – 100 unit) combined heating and power ('CHP') area schemes. For example, a CHP scheme in Oban is based on burning waste wood chips generated from the local sawmills, and heats 90 houses. There is also a scheme in Wick, which in conjunction with the local distillery, is fuelled by forestry waste and currently heats around 260 houses.
- 5.2 There are various potential targets in Shetland for such an area scheme. As well as the larger settlements such as Scalloway and Brae, there are a number of areas that have social housing near to some or all of a leisure centre, a school and a village hall. Officers believe that such a scheme would potentially be commercially viable, particularly if new social housing was planned to be built nearby. A scheme in Mid Yell heating the school, leisure centre, nursery and possible future care centre is looking very promising and is being currently investigated by the SIC with SHEAP providing technical assistance.
- 5.3 There are a number of possibilities at present and SHEAP is following up on several of them. Reports to Trustees may follow.

## **6. Conclusions**

- 6.1 SHEAP has turned loss into profits, and expects to return significant amounts to the Trust over the lifetime of the scheme (30 years plus).
- 6.2 Additional investment in District Heating Scheme infrastructure presents the Trustees, in my judgement, with the opportunity to make a further low risk, good return, local investment. I will recommend that the investment budget for the third year covered by the updated 2009 business plan (2011/12) is set at £300,000, on a commercial investment basis.
- 6.3 The District Heating Scheme is performing as a successful commercial investment for Shetland Charitable Trust. In addition, increasing payments are being made to Shetland Islands Council for the purchase of heat. The payment was over £177,000 for 2008/09. The District Heating Scheme (as part of the wider Waste to Energy

Scheme) has benefits to Shetland that cannot be quantified precisely in financial terms. However, Appendix B contains estimates of the wider benefits of the Scheme, prepared by the Manager of SHEAP.

## **7. Financial Implications**

- 7.1 Successful investment on a commercial basis generates funds for future charitable disbursements. If this can be done within Shetland, then other benefits will flow to the community.
- 7.2 HMRC and the Scottish Charities Office have accepted that the Trust can continue to invest in the District Heating Scheme infrastructure and SHEAP on a commercial basis. The Office of the Scottish Charity Regulator (OSCR) have indicated that they will have no issues with investments deemed as "qualifying" by HMRC.

## **8. Recommendations**

- 8.1 I recommend that Trustees note the progress that SHEAP has made.
- 8.2 I recommend that the Trustees agree an investment budget of £300,000 for the acquisition of District Heating Scheme infrastructure in 2011/12.

Reference: JPG/IS1  
Date: 20 October 2009

Report Number CT0911080-F



<b>Appendix A</b>
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**SHEAP Summary Accounts 2008/09**

	2008/09 £000	2007/08 £000	Variance £000
Turnover	1,394	1,028	366
Fuel and Heat	-601	-486	-115
SIC Compensation	0	34	-34
<b>Gross Profit</b>	<b>793</b>	<b>576</b>	<b>217</b>
Employee Costs	-196	-156	-40
Operating Costs	-234	-142	-92
Depreciation	-56	-52	-4
<b>Costs</b>	<b>-486</b>	<b>-350</b>	<b>-136</b>
<b>Operating Profit For SCT Group</b>	<b>307</b>	<b>226</b>	<b>81</b>
Rental of Infrastructure	-20	-20	0
06/07 Gift Aid Payment to SCT	-255	-235	-20
<b>Reported Profit/(Loss) for the year</b>	<b>32</b>	<b>-29</b>	<b>61</b>



## APPENDIX B

# **ANNUAL DISTRICT HEATING BENEFITS TO THE SHETLAND ECONOMY (as at 2009)**

**About £1,000,000 pa income from sales stays in Shetland  
This is still increasing each year with new customers but will level off after 2011 unless  
a new heat source is developed**

**Savings on fuel bills around £1,000,000pa  
(at oil price of \$80 a barrel)  
About 62% of heat sales are to non domestic properties  
including Council, Trust and Health Board  
This will increase with oil price and more customers.  
Some businesses will also save on the climate change levy**

**Without the scheme the net income and savings currently totalling around £2,000,000+ per  
annum would mostly have gone on oil and electricity and most would left the Shetland economy.**

*plus*

**Large capital savings for new build such as the  
proposed high school (£X00,000) as a result of  
smaller and much simpler plant rooms**

*plus*

**Savings in maintenance costs (£X00,000)  
Especially for large users such as the Shetland Recreational Trust  
and Shetland Health Board**

### **WORKS CREATED**

**About £300,000 new connections (75% local input)  
Plumbing internals £300,000 per annum or more  
This will decrease after 2011 unless new heat sources are developed**

### **OTHER POTENTIAL BENEFITS**

**Stable energy prices ensures commercial confidence  
Potential income to industrial waste heat producers and other renewables once the  
infrastructure and customer base has been developed**

### **NOTE**

**These figures do not take into account benefits of the  
Waste to Energy Plant in landfill reduction and jobs.**

**Also there are significant environmental benefits**



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**REPORT****To:** Shetland Charitable Trust

3 November 2009

**From:** Financial Controller

Report: CT0911083

**Viking Energy Limited – Project Update****1. Introduction**

1.1 This report presented to keep Trustees updated on the activities of Viking Energy Limited.

**2. Present Position**

2.1 A report by the Viking Energy Limited Project Manager is attached as Appendix A.

**3. Financial Implications**

3.1 There are no financial implications arising directly from this report.

**4. Recommendation**

4.1 This report is for noting.

**Reference:** EMA/IS4

Report Number CT0911083-f

4



**The Gutters' Hut  
North Ness Business Park  
Lerwick  
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**Tel: 01595 744930  
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**Date: October 2009**

Our Ref:  
Your Ref:

Viking Energy- Project Update  
Shetland Charitable Trust -Tuesday 3<sup>rd</sup> November 2009

## Planning

- An application for consent under Section 36 of the Electricity Act was submitted to the Scottish Government on 20 May 2009.
- Shetland Islands Council (SIC) is expected to make a recommendation to Scottish Ministers to help inform their decision. That recommendation could include the possibility of recommending the application for approval, recommending it for approval but with suggested conditions or lodging an objection to the application.
- Following the application a significant volume of information has been received from consultees and dialogue has started to try and identify solutions.
- It has been agreed with the Energy Consents Unit and SIC that Viking Energy will produce an "Addendum" document setting out changes to the project that should address some of the issues. It is expected that this will be ready in early 2010.
- The Addendum will be subject to a full consultation process by the public and all other consultees after its submission.
- In consequence, the earliest SIC is likely to be able to consider its recommendation to Scottish Ministers on the windfarm is now expected to be Spring 2010.
- Following receipt of SIC's planning recommendation, Scottish Ministers will weigh that up in conjunction with all the other available information including taking a view on wider national economic and energy supply issues before reaching a decision. It is still expected that a planning decision can be made in the latter part of 2010.
- Alternatively, an objection by the Council would trigger a Public Inquiry or Scottish Ministers may call one where they feel material objections have not been adequately addressed. In those cases planning timescales and an eventual decision date become open-ended.

## Transmission Connection

- This is a separate process which is the responsibility of National Grid and Scottish Hydro Electric Transmission Ltd (SHETL).
- SHETL has designed a connection to Shetland and this is now the subject of detailed, on-going contractual negotiations.
- SHETL has submitted planning applications in respect of its proposals. An application for the AC/DC converter station to be located in Upper Kergord will shortly be considered by SIC.
- The critical charges for using the connection remain uncertain. National Grid is launching a consultation shortly to try to address this.
- The preferred connection design for Shetland is currently a single circuit with an overall capacity of 600MW. As well as a continuing effort to clarify transmission charges, we are also pushing for clarification on how the cost of spare capacity on the connection will be spread.
- There has been a successful application for EU funding to develop a "node" on the proposed interconnector. The node is effectively a socket into which marine energy projects in the Pentland Firth and offshore windfarms in the Moray Firth might be able to connect at some point in the future. The proposed Shetland connection could therefore underpin a much wider strategic electricity export network in the North of Scotland.

## Investment Decision

- The Viking project team is committed to a position where it will not put unacceptable financial risks before Trustees for an investment decision.
- Any investment decision by the Trustees will have pre-conditions:
  - o Planning consent for the windfarm and the interconnector needs to be in place.
  - o Transmission charges need to be definitive before any recommendation can be made to Trustees to sanction any investment in the project.
  - o Fixed price contracts are needed to buy and build the wind farm.
  - o Power Purchase contracts must be agreed to underpin the long term commercial value of the project's renewable electricity.
  - o Financial terms including acceptable debt/equity ratios, interest rates and capital repayment terms need to be in place. Financial terms will also need to take account of project phasing and the Trust's ability to meet its ongoing annual commitments.
- It is still expected that the required reports and presentations to Trustees will be made in the latter part of 2010 to allow a fully informed investment decision to be made at that time. (Assuming no Public Inquiry).
- It should be noted that there is currently nothing to suggest that the project shouldn't be capable of generating substantial financial returns to Shetland's community funds and there is nothing to suggest that this is not an opportunity that should be explored to its fullest.

Viking Energy  
Project Manager  
October 2009