

Shetland Charitable Trust

Trustees' report and consolidated
financial statements

Charity number SC027025

31 March 2010

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Chair's introduction

This year has been one of the best, in investment terms, in the history of Shetland Charitable Trust. The world's markets recovered strongly during the year; and the Trust's local investments, SLAP and SHEAP, were profitable again and show every prospect of remaining so. The Trust also continued its investment in the Viking Energy project, within the budget agreed, to take it to the determination of its application for consent to build a major wind farm in Shetland.

This should be set against the context of the two preceding poor years on the markets, and of no consensus regarding future market trends. We should also be mindful of the forecasts of significant cuts in public sector spending which are bound to increase the demands upon every other source of funding including charitable ones.

Predictions are that the Shetland population will contain a higher proportion of elderly people, which is bound to increase the demand for services funded, in whole or in part, by the Trust. Nearly 40% of current expenditure continues to be targeted at older folk.

The Trust's funded bodies review group reported in February 2010, having achieved ongoing savings of nearly £2 million with minimal impact on services. This is a hugely praiseworthy effort which goes a long way to ensure that the Trust's finances will be in balance going forward.

A one-off contribution of £250,000 was pledged to the fundraising effort to provide a new state-of-the-art facility in Aberdeen supporting Shetland people requiring cancer treatment and their families.

For nearly a decade the Trust has taken various steps to distance itself from Shetland Islands Council, its original creator and still its valued partner in many of the areas in which it is active. It is doing this in the light of changing times and, in particular, of the legislation introduced in the Scottish Charities Act.

In February, a majority of the Trustees decided to postpone any decision on the future composition of the Trustee body and to seek further dialogue with the Office of the Scottish Charity Regulator ("OSCR"). Discussions are ongoing, and it is hoped that a solution that satisfies the concerns of all parties will be found in the incoming year.

Meantime the Trust continues in other respects to establish its own identity. It now has a new communications strategy and, as part of this, has established a website at www.shetlandcharitabletrust.co.uk, where up to date information and background about the Trust can be found.

2009/10 has been a very busy year, during which we have been well-served by the small and committed core staff at the Trust. Ann, Jeff and their team deserve our appreciation and thanks for their continuing efforts.



Bill Manson
Chairman

16 December 2010

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, Girlsta
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
Jonathan Witney Garriock Wills, Sundside, Bressay
Allan Sinclair Wishart, Seafeld Lodge, Lower Sound, Lerwick (resigned 5 August 2009)

General Manager Dr Ann Black

Financial Controller Jeff Goddard CA, PhD, BSc

Bankers Bank of Scotland
117 Commercial Street
Lerwick
ZE1 0DL

Auditors KPMG LLP
37 Albyn Place
Aberdeen
AB10 1JB

Trustees' Report *(continued)*

Solicitors	Turcan Connell Princes Exchange 1 Earl Grey Street Edinburgh EH3 9EE
Investment Managers	Insight Investment Management (Global) Limited 33 Old Broad Street, London, EC2N 1HZ Blackrock Global Investors Limited Murray House Royal Mint Court London EC3N 4HH Schroders Property Managers 31 Gresham Street London EC2V 7QA
Custodian And Investment Monitor	The Northern Trust Company 50 Bank Street Canary Wharf London E14 5NT
Investment Consultant	Hymans Robertson LLP 20 Waterloo Street Glasgow G2 6DB

Trustees' Report *(continued)*

Section 2: Structure, Governance and Management

Governing Document

The Shetland 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.

The Trust Deed appoints Trustees, states the charitable purposes of the Trust and also sets out the powers of the Trustees.

Charitable Status

The Trust appears in the Scottish Charity Register, number SC027025, maintained by the Office of the Scottish Charity Regulator (OSCR). In addition, any tax reliefs received by the Trust are overseen by HM Revenue and Customs (HMRC). The Trust has to demonstrate to both these regulators, on an ongoing basis, that its activities remain charitable, and in the case of OSCR, generate public benefit.

Trustees – Appointment, Induction and Training

Following the resignation of Allan Wishart on 5 August 2009, the Trust has twenty-three Trustees, 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 *ex officio*, that is to say by virtue of their positions in 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.

After a meeting with OSCR in November 2008, Trustees were asked to review the makeup of the Trustee body so that the Trust can better evidence its decision making process where potential conflicts of interest arise. A Governance Review Group was set up in February 2009 to develop proposals which would meet the needs of the Trust and the approval of OSCR. The Governance Review Group's recommended model, which was arrived at after inviting comment from local Community Councils and members of the public, was presented to a meeting of Trustees in February 2010. At that meeting, Trustees deferred a decision on the final structure of the Trustee body.

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, represent value for money and complement the needs and aspirations of the community, as the primary beneficiaries of the Trust, 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 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 organisation, free to carry out its charitable activities either alone or in partnership with any other party it so wishes. Given the unique position of the Shetland Islands, the Trust recognises and keeps up to date with the strategic direction of Shetland Islands Council and complements, if and when appropriate, the work of Shetland Islands Council by remaining aware of the overall direction, strategy and service needs required for this community.

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:

Shetland Leasing and Property Developments Limited (SLAP)	James Henry – Chair William Manson – Vice Chair Alexander Cluness Adam Doull (appointed 22 September 2009) Allison Duncan Iris Hawkins Robert Henderson (appointed 22 September 2009) Caroline Miller Allan Wishart (resigned 5 August 2009)
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Shetland Heat Energy and Power Limited (SHEAP)	Gary Robinson – Chair Richard Nickerson – Vice Chair Allison Duncan Robert Henderson (appointed 22 September 2009) James Henry Allan Wishart (resigned 5 August 2009)
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C. T. Shetland (T. M.) Limited	William Manson - Chair Florence Grains Iris Hawkins 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
Caroline Miller (appointed 22 September 2009)
Allan Wishart (resigned 5 August 2009)

Risk management

Trustees regularly review the major risks to which the charity is exposed, and believe that the steps taken to mitigate these risks are suitable and reasonable.

Following a review by a Working Group of Trustees, which reported to the Trust in May 2009, a further review was undertaken at Officer level. This identified 32 risks, and priority will be given to dealing with any issue which has a high likelihood of occurring and a significant impact on service delivery should it occur.

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 stations, 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 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

The Trust is generally a strategic funding body providing funding for other organisations to carry out its charitable activities and only undertakes a small amount of "direct" charitable activity in the Shetland community itself. The Trust can only give grants or loans in furtherance of its charitable purposes narrated in the Trust Deed and where a benefit to the Shetland community is clearly demonstrable.

Funded Bodies – Performance Monitoring

Any grant recipient is subject to "Performance Monitoring". During the application process, applicants must 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' 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 investment 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 to £11 million pa (in March 2009 money) 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 have set the budget for 2010/11 at £11 million. This completes a process started in 2002 and the trust is at last back in financial balance line with the long term strategy of "self-sustainability".

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.

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 2010, 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 | • 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 allow 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 2009, 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 Persons
- Development Grant Aid Scheme
- Community Support Grant Aid Scheme
- Arts Grant Aid Scheme
- Sheltered Housing Heating
- Senior Citizen's Clubs
- Supported employment
- Equalisation of Residential Care Charges
- Shetland Field Studies Service
- Local Charitable Organisations
- Social Assistance Grants
- Bus Services Elderly and Disabled

Following discussions with HM Revenue and Customs the Trust modified the Christmas Grant Scheme from 2009 to better target the grants towards those in financial need.

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 agreed to make a one-off contribution of £250,000 to the CLAN 123 Appeal, which seeks to fund a facility for cancer sufferers and their relatives who have to travel to Aberdeen from Shetland for treatment. A grant condition was that the grant would only be paid out once confirmation had been received that the project would definitely go ahead. Work is continuing on a programme of upgrading the Fire Safety arrangements in the six rural care homes owned by the Trust. The final instalment was paid in respect of the construction of 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 to £11 million per annum by 31 March 2012. This policy was set before the spectacular falls in share values in 2007 and 2008. The market started to bounce back in March 2009, and the year to 31 March 2010 showed returns (income and capital growth) of over £50 million, the Trust's best ever year. The Trust's target is to be self-sustaining with net investable assets of £220 million (in March 2009 money). The strong returns from the world's markets and good performance of the local investments meant that at 31 March 2010, the Trust was close to target, but still below the target by about £10 million.

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 2009/10 and have generated profits for the Trust. The rentals from the land at the Sullom Voe terminal also made a useful contribution.

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 2009/10 following 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. The Trust staff reduced from 11 in 2005/06 to eight in 2007/08, but has risen to nine with the appointment of a General Manager. Salary costs have risen slightly as a consequence of this appointment.

Charitable Expenditure

Year to 31 March 2010

	Original budget £	Vire / enhance £	Current budget £	Actual spend £	Variance £
Charitable Organisations					
Shetland Amenity Trust	1,080,228		1,080,228	1,080,228	-
Shetland Arts Development Agency	773,376		773,376	773,376	-
Shetland Field Studies Service	37,206		37,206	37,206	-
Shetland Recreational Trust	2,781,550		2,781,550	2,781,550	-
Shetland Youth Information Service	188,840		188,840	188,840	-
COPE Limited	154,967		154,967	154,968	-1
Citizens Advice Bureau	147,850		147,850	147,850	-
VAS - Voluntary Services Resource Centre	144,412		144,412	144,412	-
Shetland Churches Council Trust	54,115		54,115	54,115	-
VAS – Children's Befriending Scheme	55,935		55,935	55,935	-
VAS – New Shetlander	370		370	370	-
Disability Shetland Recreation Club	12,641		12,641	12,641	-
Women's Royal Voluntary Service	51,498		51,498	51,498	-
The Swan Trust	48,900		48,900	48,900	-
Shetland Link Up	47,994		47,994	47,994	-
Shetland Link Up – Art Therapy	26,212		26,212	26,212	-
Couple Counselling Shetland	12,000		12,000	12,000	-
Cost of Change (Trusts)	0	24,756	24,756	25,059	-303
Sub total: Charitable Organisations	5,618,094	24,756	5,642,850	5,643,154	-304

	Original budget £	Vire / enhance £	Current Budget £	Actual spend £	Variance £
Projects					
Independence at Home Scheme	0	10,000	10,000	1,199	8,801
Christmas Grant Scheme	1,147,500		1,147,500	506,590	640,910
Equalisation of Charges	3,291,189		3,291,189	3,291,189	-
Community Development Grants	22,272	-9,530	12,742	12,742	-
Community Support Grants	64,321	9,530	73,851	73,805	46
Festival Grants	30,000		30,000	30,000	-
Arts Grant Scheme	35,000		35,000	29,217	5,783
Social Assistance Grants	35,000	7,987	42,987	21,470	21,517
Senior Citizens Clubs	23,000		23,000	18,439	4,561
Buses for Elderly and Disabled	49,980		49,980	48,000	1,980
Local Charitable Organisations	14,000		14,000	12,572	1,428
Sheltered Housing Heating	26,010		26,010	26,010	-
Supported Employment	8,000		8,000	7,503	497
Springfield Running costs	1500		1,500	556	944
Sub total: Projects	4,747,772	17,987	4,765,759	4,079,292	686,467

Trustees' Report *(continued)*

	Original budget £	Vire / enhance £	Current budget £	Actual spend £	Variance £
Property Maintenance					
Shetland Amenity Trust	381,986		381,986	381,986	-
Shetland Arts (including Weisdale Mill)	78,250		78,250	78,245	5
Shetland Recreational Trust	809,374		809,374	809,374	-
Market House	38,000		38,000	13,354	24,646
Swan Trust	21,100		21,100	21,100	-
Rural Care Homes Fire Safety	-	593,600	593,600	342,277	251,323
Springfield Chalet	2,700		2,700	694	2,006
Maintenance 22-24 North Road	9,000		9,000	2,765	6,235
Sub total: Property Maintenance	1,340,410	593,600	1,934,010	1,649,795	284,215
Total of Programme	11,706,276	636,343	12,342,619	11,372,241	970,380
Capital/ One-off Projects (slippage from Previous years)					
CLAN 123 (from 07/08 underspend)	-	250,000	250,000	-	250,000
New Museum and Archives	-	83,265	83,265	83,265	
Less: Charitable grants repaid				(64,706)	
Overall total				11,390,800	

Section 5: Financial Review

Growth and Unrestricted Funds

The Trust relies chiefly on funds generated by investments on the world's Stock Exchanges. In 2009/10, around £4 million income was derived from investments in Shetland, valued at around £30 million, in SLAP, the land at Sullom Voe Terminal and the District Heating Scheme infrastructure.

The Trust Deed does not require the Trust to distinguish between revenue and capital (income or expenditure), 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 policy 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 2010) of the Trust's reserves that are invested to generate income (ie not the 'Donated Properties') is around £210 million, which covers expenditure for around 19 years.

Trustees seek to control risk through proper diversification and 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:

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

Stock Exchanges

As at 31 March 2010, three fund managers managed the Trust's Stock Exchanges portfolio. Blackrock Global Investors (formerly Barclays Global Investors) manage around £110 million invested in equities (shares), Insight Investment manage around £45 million in bonds and commercial property, and Schroders Property Managers manage around £11 million in commercial property.

This review covers the year to 31 March 2010, which contained a massive upturn, that followed 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, the Trust has achieved returns of around 40% or better in most equity markets.

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 provides 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. Its main activity is the purchasing, developing and letting of about 30 properties throughout Shetland. SLAP gift aids its profits to the Trust. The property portfolio is valued at £16 million and it generated rental income of over £2.5 million in 2009/10. The Board of Directors resolved to make a gift aid payment of £3.8 million to the Trust in the financial year 2009/10. This mechanism means that neither body pays tax on these profits.

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 come to the end of its useful life. SLAP (Trading) Limited had no assets or liabilities at 31 March 2010, and is expected to be wound up shortly.

Shetland Heat Energy and Power Limited (SHEAP), is a wholly owned subsidiary of the Trust, set up to operate the Lerwick District Heating Scheme. SHEAP has over 1,000 customers receiving heat. The Board of Directors resolved to make a gift aid payment of £340,233 to the Trust in the financial year 2009/10.

Viking Energy Limited is a 90% owned subsidiary of the Trust. The Trust has invested £2.25 million at 31 March 2010. It is presently investigating a very large windfarm project in central Shetland.

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*.

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 reducing expenditure to £11 million per annum over that period. This target has been achieved with the setting of the 2010/11 budget.

Section 6: Plans For The Future

Trustees

Trustees are continuing to explore options for a new structure for the Trustee body, with a view to reaching a solution acceptable to all parties in the near future.

Financial Position

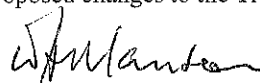
The three year plan covers the period until 31 March 2012, and Trustees have achieved their objective of financial self-sustainability, but will be monitoring their income and expenditure very closely to ensure that the Trust's resources remain in balance.

Funded Bodies

The Funded Bodies Review Group has been wound up. All reviews have been completed with the exception of the Planned Maintenance Programme review, which is being carried out by officers in 2010/11. However, Trustees decided to keep the group in abeyance, so that it could be brought back to assist in the next budget cycle if required.

Investment Strategy and Fund Manager Performance

The proposed changes to the Trust's investment strategy are now complete.



WH Manson
Chair

16 December 2010

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

Under the Trust Deed, and charity law, the trustees are responsible for preparing the Trustees' Report and the financial statements in accordance with applicable law and regulations.

The financial statements are required by law to give a true and fair view of the state of affairs of the charity and of the excess of expenditure over income 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 applicable UK Accounting Standards and 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; and
- 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 group and charity at that time, and to enable the trustees to ensure that, where any statements of accounts are prepared by them under section 44 (1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 10 of the Charities Accounts (Scotland) Regulations 2006 and the Trust Deed, those statements of accounts comply with the requirements of regulations under that provision. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and charity 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 2010 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 auditors' 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' 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' 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 2010 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.

DJ Watt

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

21 December 2010

Consolidated statement of financial activities
for the year ended 31 March 2010

	Note	Unrestricted funds		2010 Total £000	2009 Total £000
		General funds £000	Expendable endowment £000		
Incoming resources					
<i>Incoming resources from generated funds</i>					
Voluntary income	2	-	-	-	8,153
Activities for generating funds – trading subsidiaries		4,181	-	4,181	4,029
Investment income		4,750		4,750	4,360
<i>Other incoming resources</i>					
Rental income		1,141	-	1,141	1,337
Other income		167	-	167	268
Total incoming resources		10,239	-	10,239	18,147
Resources expended					
<i>Cost of generating funds</i>					
Expenditure of trading subsidiaries		(2,108)		(2,108)	(1,330)
Investment management costs		(196)		(196)	(386)
<i>Charitable activities</i>	3	(11,936)	(1,298)	(13,234)	(14,285)
<i>Governance costs</i>	3	(79)	-	(79)	(74)
Total resources expended		(14,319)	(1,298)	(15,617)	(16,075)
Net (outgoing) incoming resources before other recognised gains and losses		(4,080)	(1,298)	(5,378)	2,072
Other recognised gains and losses					
Gains/(Losses) on managed fund investments		-	46,836	46,836	(44,721)
Actuarial (losses) gains in defined benefit pension scheme	15	(792)	-	(792)	(429)
Net movement in funds		(4,872)	45,538	40,666	(43,078)
Fund balances brought forward		(16,216)	192,644	176,428	219,506
Fund balances carried forward		(21,088)	238,182	217,094	176,428

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.

The notes on pages 22 to 38 form a part of the financial statements.

Trust statement of financial activities

for the year ended 31 March 2010

	Note	Unrestricted funds		2010 Total £000	2009 Total £000
		General funds £000	Expendable endowment £000		
Incoming resources					
<i>Incoming resources from generated funds</i>					
Voluntary Income	2	-	-	-	8,153
Investment income		4,750	-	4,750	4,360
Gift aid payment from subsidiary undertakings		4,170	-	4,170	4,508
<i>Other incoming resources</i>					
Rental income		1,141	-	1,141	1,337
Other income		67	-	67	268
Total incoming resources		10,128	-	10,128	18,626
Resources expended					
<i>Cost of generating funds</i>					
Investment management costs		(196)	-	(196)	(386)
Provision (made) released against equity investment		-	(1,655)	(1,655)	(303)
<i>Charitable activities</i>	3	(11,936)	(1,298)	(13,234)	(14,285)
<i>Governance costs</i>	3	(79)	-	(79)	(74)
<i>Other resources expended</i>					
Interest payable on loan from subsidiary		(275)	-	(275)	(1,529)
Total resources expended		(12,486)	(2,953)	(15,439)	(16,577)
Net incoming (outgoing) resources before other recognised gains and losses		(2,358)	(2,953)	(5,311)	2,049
Other recognised gains and losses					
Gains/(Losses) on managed fund investments		-	46,836	46,836	(44,721)
Actuarial losses in defined benefit pension scheme	15	(792)	-	(792)	(429)
Net movement in funds		(3,150)	43,883	40,733	(43,101)
Total funds brought forward		3,204	173,118	176,322	219,423
Fund balances carried forward		54	217,001	217,055	176,322

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.

The notes on pages 22 to 38 form a part of the financial statements.

Consolidated balance sheet
at 31 March 2010

	Note	2010		2009	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	5		29,853		27,653
Investments:					
Investments	6	180,583		143,045	
Programme-related investments	7,8	2,481		6,789	
			<u>183,064</u>		<u>149,834</u>
Total fixed assets			<u>212,917</u>		<u>177,487</u>
Current assets					
Stocks		36		26	
Debtors	9	2,388		1,872	
Investments		-		12	
Cash at bank and in hand		7,610		7,073	
			<u>10,034</u>		<u>8,983</u>
Creditors: amounts falling due within one year	10	<u>(3,111)</u>		<u>(7,814)</u>	
Net current assets			<u>6,923</u>		<u>1,169</u>
Total assets less current liabilities			<u>219,840</u>		<u>178,656</u>
Provisions for liabilities and charges	12		<u>(1,147)</u>		<u>(1,466)</u>
Net assets excluding pension liability			<u>218,693</u>		<u>177,190</u>
Pension liability	15		<u>(1,599)</u>		<u>(762)</u>
Net assets including pension liability			<u>217,094</u>		<u>176,428</u>
Represented by:					
Expendable endowment	13		238,182		192,644
Unrestricted income funds:	14				
General funds			(11,804)		(5,597)
Trading funds			(7,961)		(9,883)
Revaluation reserve			26		26
Minority interest			<u>250</u>		<u>-</u>
Unrestricted income funds excluding pension liability			<u>(19,489)</u>		<u>(15,454)</u>
Pension reserve	14		<u>(1,599)</u>		<u>(762)</u>
Total unrestricted income funds			<u>(21,088)</u>		<u>(16,216)</u>
Total charity funds			<u>217,094</u>		<u>176,428</u>

These financial statements were approved by the trustees on 16 December 2010 and were signed on their behalf by:



WH Manson
Chairman

JH Henry
Vice-Chairman



The notes on pages 22 to 38 form a part of these financial statements.

Trust balance sheet

at 31 March 2010

	Note	2010 £000	2009 £000
Fixed assets			
Tangible assets	5	11,571	12,209
Investments:			
Investments	6	180,583	143,045
Programme-related investments	7,8	52,611	52,266
		233,194	195,311
Total fixed assets		244,765	207,520
Current assets			
Debtors	9	1,312	1,348
Investments		-	9
Cash at bank and in hand		4,865	5,305
		6,177	6,662
Total current assets		6,177	6,662
Creditors: amounts falling due within one year	10	(1,288)	(1,598)
Net current assets		4,889	5,064
Total assets less current liabilities		249,654	212,584
Creditors: amounts falling due outwith one year	11	(31,000)	(35,500)
Net assets excluding pension liability		218,654	177,084
Pension liability	15	(1,599)	(762)
Net assets including pension liability		217,055	176,322
Represented by:			
Expendable endowment	13	217,001	173,118
Unrestricted income funds			
General funds	14	1,653	3,966
Pension reserve	14	(1,599)	(762)
		54	3,204
Total unrestricted income funds		217,055	176,322

These financial statements were approved by the trustees on 16 December 2010 and were signed on their behalf by:



WH Manson
Chairman

JH Henry
Vice-Chairman



The notes on pages 22 to 38 form a part of these financial statements.

Consolidated cash flow statement
for the year ended 31 March 2010

	2010		2009	
	£000	£000	£000	£000
Net cash outflow from operating activities		(8,773)		(3,956)
Returns on investment and servicing of finance				
Investment income and interest received		4,750		4,390
Capital expenditure and financial investment				
Purchase of managed funds investments	(29,634)		(274,558)	
Purchase of tangible fixed assets	(3,594)		(5,021)	
Purchase of shares within subsidiary	(1,415)		-	
Sale of managed funds investments	58,679		283,975	
Loans repaid	258		326	
	<hr/>		<hr/>	
Net cash inflow (outflow) from capital expenditure and financial investment		24,294		4,722
Management of liquid resources				
Net movement in cash flows attributable to managed fund investments		(21,461)		(9,417)
Funds (deposited) withdrawn from short term deposit (net)		1,727		5,066
		<hr/>		<hr/>
Increase in cash in the year		537		805
		<hr/> <hr/>		<hr/> <hr/>

Notes to the consolidated cash flow statement

for the year ended 31 March 2010

Reconciliation of net incoming (outgoing) resources to net cash outflow from operating activities	2010	2009
	£000	£000
Net incoming (outgoing) resources	(5,378)	2,072
Investment income and interest receivable	(4,750)	(4,360)
Depreciation written off and impairment of tangible fixed assets	1,392	1,266
Movement in pension liability, excluding actuarial gains and losses	45	9
Decrease (increase) in stock	(10)	14
Donated assets receivable	-	(973)
Decrease (increase) in debtors	(516)	931
Increase (decrease) in creditors	(4,703)	(3,064)
(Decrease) increase in provisions	(319)	149
Increase in provision for programme related investments	5,466	-
	<hr/>	<hr/>
Net cash outflow from operating activities	(8,773)	(3,956)
	<hr/> <hr/>	<hr/> <hr/>
 Reconciliation of net cash flow to movement in net funds		
Increase in cash in the year	537	805
Cash outflow (inflow) from increase (decrease) in liquid resources	(1,727)	(5,066)
	<hr/>	<hr/>
Change in net funds resulting from cash flows	(1,190)	(4,261)
Net funds at the start of the year	8,796	13,057
	<hr/>	<hr/>
Net funds at the end of the year	7,606	8,796
	<hr/> <hr/>	<hr/> <hr/>
 Net funds comprise:		
Cash in hand held by investment managers	(4)	1,711
Temporary deposits	-	12
Cash at bank and in hand	7,610	7,073
	<hr/>	<hr/>
	7,606	8,796
	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements

(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.

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 subsidiaries, Shetland Leasing and Property Developments Limited, Shetland Heat Energy and Power Limited, and Viking Energy 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. As Viking Energy Limited is only 90% owned, the minority interest in that company is shown within the consolidated and Trust balance sheets.

The result 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, Shetland Heat Energy and Power Limited, and Viking Energy 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.

Turnover in Viking Energy Limited represents miscellaneous income.

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.

Notes (continued)

1 Accounting policies (continued)

Other incoming resources

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.

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*, 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 considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the Trust is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes. There is no similar exemption for VAT.

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 2010 £000	Charity 2010 £000	Group 2009 £000	Charity 2009 £000
Gifts and donations	-	-	7,180	7,180
Value of donated fixed assets (see note 5)	-	-	973	973
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	8,153	8,153
	<hr/>	<hr/>	<hr/>	<hr/>

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:

	2010 £000	2009 £000
General funds		
Payments to charitable organisations	5,643	5,847
Project expenditure	4,079	5,223
Property advice and maintenance	1,650	1,247
Capital expenditure projects	83	286
Charitable Grants Repaid	(64)	(92)
	<hr/>	<hr/>
Total charitable grants	11,391	12,511
Support costs	545	508
	<hr/>	<hr/>
Total charitable expenditure – general funds	11,936	13,019
	<hr/>	<hr/>
Expendable endowment		
Depreciation – see note 4	1,298	1,266
	<hr/>	<hr/>
Total resources expended on charitable activities	13,234	14,285
	<hr/>	<hr/>

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 £545,000 (2009: £508,000) principally represent administration expenses and are all deemed to be attributable to the group's charitable activities. Included within administration expenses is £339,000 (2009: £256,000) in respect of staff costs (see note 4).

Governance costs

Governance costs totalling £79,000 (2009: £74,000) comprise the costs associated with the Trust's compliance with charity regulation and good practice. They include £34,000 (2009: £30,000) representing an appropriate apportionment of salary costs together with trustees' expenses (see note 4) and audit fees of £25,000 (2009: £30,000).

Notes *(continued)*

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

	Group and charity	
	Total	Total
	2010	2009
	£	£
Allocation of staff and support costs, including Trustees' allowance and expenses (see note 4)	34	30
Other costs	20	14
External auditors' remuneration:		
Audit of these financial statements	25	30
Audit of subsidiary undertakings (excluded from charitable governance costs)	31	32
Other services: taxation in relation to subsidiary undertakings	11	15
Total governance costs	79	74

4 Staff numbers and costs

The group had an average of fifteen employees during the year *(2009: fifteen)*. The aggregate payroll cost of these employees was as follows:

	2010	2009
	£000	£000
Wages and salaries	468	396
Social security costs	37	31
Pension costs	69	50
	574	477

Employee costs totalling £228,713 (2009: £196,277) were charged to Shetland Charitable Trust in respect of work performed by its subsidiary company Shetland Heat Energy and Power Limited. Six employees worked wholly or mainly on the subsidiary company's activities during the year.

One employee *(2009: 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 *(2009: £7,500)* from the group during the year. Expenses totalling £3,725 *(2009: £1,837)* were reimbursed to 10 trustees *(2009: 13 trustees)* during the year.

Notes (continued)

5 Tangible fixed assets

Group	Land and buildings £000	District heating scheme infrastructure £000	Investment properties £000	Vessel and aircraft £000	Other £000	Total £000
<i>Cost or valuation</i>						
At beginning of year	25,434	15,728	12,322	865	2,854	57,203
Additions	-	661	1,110	-	1,821	3,592
Transfers	-	-	3,554	-	(3,554)	-
At end of year	25,434	16,389	16,986	865	1,121	60,795
<i>Depreciation</i>						
At beginning of year	17,587	11,366	-	288	309	29,550
Charge for year	1,083	214	-	33	62	1,392
At end of year	18,670	11,580	-	321	371	30,942
<i>Net book value</i>						
At 31 March 2010	6,764	4,809	16,986	544	751	29,853
At 31 March 2009	7,847	4,362	12,322	577	2,545	27,653

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 mean 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 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 Trustees, having taken appropriate professional advice, are of the opinion that the commercial property market in Shetland has not fallen in 2009/10, as Shetland has been largely insulated from the shocks experienced in most of the rest of the UK. The investment properties are shown in these accounts as a Trustees' valuation, consisting of the 2008 valuations rolled forward for acquisitions, disposals and any spending on assets under construction.

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

	2010 £000	2009 £000
Plant and machinery, fixtures and fittings held by Shetland Heat Energy and Power Limited	303	291
Assets under construction held by Shetland Leasing and Property Development Limited	449	2,254

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	9,159	15,728	41,162
Additions	-	-	661	661
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	16,275	9,159	16,389	41,823
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At beginning of year	15,035	2,552	11,366	28,953
Charge for year	170	915	214	1,299
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	15,205	3,467	11,580	30,252
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 March 2010	<u>1,070</u>	<u>5,692</u>	<u>4,809</u>	<u>11,571</u>
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2009	<u>1,240</u>	<u>6,607</u>	<u>4,362</u>	<u>12,209</u>
	<hr/>	<hr/>	<hr/>	<hr/>

6 Managed funds

Group and Charity	2010 Market Value £000	2010 Cost £000	2009 Market Value £000	2009 Cost £000
Listed investments:				
British Government securities	26,240	25,536	25,615	26,252
Other UK fixed interest	22,224	21,047	17,654	20,091
Overseas fixed interest	-	-	2,619	2,639
	<hr/>	<hr/>	<hr/>	<hr/>
	48,464	46,583	45,888	48,982
	<hr/>	<hr/>	<hr/>	<hr/>
UK equities	59,278	55,135	44,914	61,964
Overseas equities	59,191	50,186	46,384	59,514
Property units	13,585	12,574	4,122	5,887
	<hr/>	<hr/>	<hr/>	<hr/>
	132,054	117,895	95,420	127,365
	<hr/>	<hr/>	<hr/>	<hr/>
Total investments	180,518	164,478	141,308	176,347
Cash on deposit and in hand	65	(4)	1,737	1,711
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>180,583</u>	<u>164,474</u>	<u>143,045</u>	<u>178,058</u>
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

6 Managed funds (continued)

	2010 £000	2009 £000
<i>Reconciliation of market value of investments</i>		
Market value at beginning of year	143,045	193,005
Investments purchased	29,634	274,558
Investments sold	(58,679)	(283,975)
Total gains (losses) on managed fund investments	68,298	(35,468)
Movement in investment managers' cash balances	(1,715)	(5,075)
	<hr/>	<hr/>
Market value at end of year	180,583	143,045
	<hr/> <hr/>	<hr/> <hr/>

As at 31 March 2010, the Trust's funds other than programme-related investments are managed by Insight Investment Management, Blackrock Global Investors and Schroders. The split of the portfolio between the investment managers is as follows:

	2010 Market value £000	2010 Cost £000	2009 Market value £000	2009 Cost £000
Insight Investment Management	49,078	47,128	49,563	52,354
Blackrock Global Investors	118,475	105,327	91,637	121,817
Capital International	-	-	50	50
Record Currency Management	-	-	1,795	3,837
Schroders	13,030	12,019	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	180,583	164,474	143,045	178,058
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

7 Programme-related investments

	Group		Charity	
	2010 £000	2009 £000	2010 £000	2009 £000
Equity (below)	1,440	5,490	51,570	50,976
Loans (note 8)	1,041	1,299	1,041	1,290
	<hr/>	<hr/>	<hr/>	<hr/>
	2,481	6,789	52,611	52,266
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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	6,001	626	6,627
Additions	1,415	-	1,415
	<hr/>	<hr/>	<hr/>
Cost at end of year	7,416	626	8,042
	<hr/>	<hr/>	<hr/>
<i>Provisions</i>			
At beginning of year	535	601	1,136
Provided in year	5,466	-	5,466
Disposals	-	-	-
	<hr/>	<hr/>	<hr/>
Provisions at end of year	6,001	601	6,602
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 March 2010	1,415	25	1,440
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2009	5,466	25	5,491
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Equity – Charity			Shares in subsidiary undertakings £000
<i>Cost</i>			
At beginning of year			70,501
Additions			2,249
			<hr/>
Cost at end of year			72,750
			<hr/>
<i>Provisions</i>			
At beginning of year			19,525
Provided in year			1,655
			<hr/>
Provisions at end of year			21,180
			<hr/>
<i>Net book value</i>			
At 31 March 2010			51,570
			<hr/> <hr/>
At 31 March 2009			50,976
			<hr/> <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>
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SLAP (Trading) Limited	Leasing and hire purchase	100	Indirect
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SLAP (Trading) Limited has not been consolidated as the Trustees consider it 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. SLAP (Trading) Limited had no assets or liabilities at 31 March 2010. The Directors of SLAP (Trading) Limited have applied to Companies House to have that company removed from the register.

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), Shetland Heat Energy and Power Limited (SHEAP) and Viking Energy Limited (VEL). The trading results of these companies are summarised below:

	2010 SLAP £000	2010 SHEAP £000	2010 VEL £000	2010 Total £000	2009 Total £000
Turnover	2,654	1,526	-	4,180	3,871
Cost of sales	(230)	(651)	-	(881)	(753)
Gross profit	2,424	875	-	3,299	3,118
Administration expenses	(43)	(606)	(1,172)	(1,821)	(689)
Gift aid payment to Shetland Charitable Trust	(3,829)	(340)	-	(4,169)	(4,508)
Other operating income	102	5	-	107	108
Operating (loss) profit	(1,346)	(66)	(1,172)	(2,584)	(1,971)
Reversal of investment property valuation deficit	25	-	-	25	-
Interest receivable and similar income	263	2	4	269	1,580
(Loss) on ordinary activities before taxation	(1,058)	(64)	(1,168)	(2,290)	(391)
Tax on (loss) on ordinary activities	323	(3)	-	320	112
(Loss) on ordinary activities after taxation being loss for the financial year	(735)	(67)	(1,168)	(1,970)	(279)

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:

	2010 Total £000	2009 Total £000
Cost of sales	881	753
Administration expenses	1,821	689
Reversal of investment property valuation deficit	(25)	-
Tax charge (credit) on profit on ordinary activities	(319)	(112)
Minority interest	(250)	-
	2,108	1,330
	2,108	1,330

Included within the companies' profit (loss) for the year is a total of £4,168,815 (2009: £4,507,494) paid to the Trust by way of gift aid from SLAP and SHEAP which has been eliminated within the consolidated statement of financial activities.

The assets and liabilities of the subsidiaries were:

	2010 SLAP £000	2010 SHEAP £000	2010 VEL £000	2010 Total £000	2009 Total £000
Tangible fixed assets	18,004	303	1,416	19,723	20,934
Current assets	33,243	634	1,018	34,895	37,872
Current liabilities	(402)	(345)	(1,104)	(1,851)	(6,143)
Creditors amounts due after one year	(1,105)	(53)	-	(1,158)	(1,582)
	49,740	539	1,330	51,609	51,081
	49,740	539	1,330	51,609	51,081
Called up share capital	70,000	500	2,500	73,000	70,500
Profit and loss account	(20,286)	39	(1,170)	(21,417)	(19,445)
Revaluation reserve	26	-	-	26	26
	49,740	539	1,330	51,609	51,081
	49,740	539	1,330	51,609	51,081

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, 139 Fountainbridge, Edinburgh EH3 9FF.

8 Programme-related investments – Loans

	2010 £000	2009 £000
Group		
Agricultural Ten Year Loan Scheme	1,107	1,361
Provisions for doubtful debts	(66)	(71)
	1,041	1,290
Local loans granted by Shetland Leasing and Property Developments Limited (net of provisions)	-	9
	1,041	1,299
	1,041	1,299

Notes *(continued)*

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

	2010	2009
	£000	£000
Charity		
Agricultural Ten Year Loan Scheme	1,107	1,361
Provisions for doubtful debts	(66)	(71)
	1,041	1,290
	1,041	1,290

9 Debtors

	Group		Charity	
	2010	2009	2010	2009
	£000	£000	£000	£000
Trade debtors	812	478	-	-
Amounts owing from subsidiary undertakings	-	-	4	42
Prepayments and accrued income	1,543	1,282	1,279	1,218
Other debtors:				
Loan repayments due	22	15	18	15
VAT recoverable	11	26	11	5
Sundry debtors	-	71	-	68
	2,388	1,872	1,312	1,348
	2,388	1,872	1,312	1,348

10 Creditors: amounts falling due within one year

	Group		Charity	
	2010	2009	2010	2009
	£000	£000	£000	£000
Trade creditors	941	92	-	-
Rents in advance	66	76	-	-
Amounts owed to subsidiary undertakings	-	5,450	-	-
Other tax and social security	256	490	-	478
Other creditors and accruals	1,848	1,706	1,288	1,120
	3,111	7,814	1,288	1,598
	3,111	7,814	1,288	1,598

11 Creditors: amounts falling due after more than one year

Charity	2010	2009
	£000	£000
Loan from subsidiary undertaking	31,000	35,500
	31,000	35,500
	31,000	35,500

The loan of £31,000,000 (2009: £35,500,000) from Shetland Leasing and Property Developments Limited represents an unsecured loan which is repayable between 2011 and 2012. It bears interest at a rate of 0.25% over base rate.

Notes *(continued)*

12 Provisions for liabilities and charges

Group	Deferred taxation
	£000
At beginning of year	1,466
Credit for the year	(341)
Effect of increased tax rates	22
	1,147
At end of year	1,147

The deferred tax liability arising within the Trust's subsidiary companies at the year end of £1,147,000 (2009: £1,466,000) is analysed as follows:

	2010	2009
	£000	£000
Accelerated capital allowances	405	324
Other timing differences: Gift aid	742	1,072
Other timing differences	-	70
	1,147	1,466
	1,147	1,466

13 Expendable endowment

	Group Total	Charity Total
	£000	£000
At beginning of year	192,644	173,118
Incoming resources	-	-
Outgoing resources	(1,298)	(2,953)
Losses in the year	46,836	46,836
	238,182	217,001
At end of year	238,182	217,001

Notes *(continued)*

14 Unrestricted income funds

Group	General funds £000	Trading funds £000	Revaluation reserve £000	Pension reserve £000	Minority interest £000	Total unrestricted income funds £000
At beginning of year	(5,597)	(9,883)	26	(762)	-	(16,216)
Net movement in funds	(6,207)	1,922	-	(837)	250	(4,872)
At end of year	<u>(11,804)</u>	<u>(7,961)</u>	<u>26</u>	<u>(1,599)</u>	<u>250</u>	<u>(21,088)</u>

Charity	General funds £000	Pension reserve £000	Total unrestricted income funds £000
At beginning of year	3,966	(762)	3,204
Net incoming resources before other recognised gains and losses	(2,358)	-	(2,358)
Actuarial losses	-	(792)	(792)
Transfer to (from) pension reserve	45	(45)	-
At end of year	<u>1,653</u>	<u>(1,599)</u>	<u>54</u>

The deficit balance on the trading funds of £11,804,000 (2009: £9,883,000) 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 £11,804,000 (2009: £ 5,597,000) 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 £1,599,000 (2009: £762,000), was a surplus of £1,653,000 (2009: £3,966,00).

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 2010 by a qualified independent actuary.

	2010 £000	2009 £000
Present value of funded defined benefit obligations	(2,726)	(1,514)
Fair value of plan assets	1,286	866
	<u>(1,440)</u>	<u>(648)</u>
Present value of unfunded defined benefit obligations	(159)	(114)
Net (liability)	<u>(1,599)</u>	<u>(762)</u>

Notes *(continued)*

15 Pension scheme *(continued)*

Movements in present value of defined benefit obligation:

	2010	2009
	£000	£000
At 1 April	1,628	1,578
Current service cost	50	48
Interest cost	114	110
Actuarial losses / (gains)	1,092	(89)
Past service cost	12	-
Contributions by members	31	21
Benefits paid	(42)	(40)
	2,885	1,628
At 31 March	2,885	1,628

Movements in fair value of plan assets:

	2010	2009
	£000	£000
At 1 April	866	1,254
Expected return on plan assets	59	93
Actuarial gains / (losses)	300	(518)
Contributions by employer	72	56
Contributions by members	31	21
Benefits paid	(42)	(40)
	1,286	866
At 31 March	1,286	866

Expense recognised in the statement of financial activities:

	2010	2009
	£000	£000
Current service cost	(50)	(48)
Interest on defined benefit pension plan obligation	(114)	(110)
Expected return on defined benefit pension plan assets	59	93
Past service cost	(12)	-
	(117)	(65)
Total	(117)	(65)

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

	2010	2009
	£000	£000
Charitable activities – support costs	(117)	(65)
	(117)	(65)

The total amount recognised in the other recognised gains and losses section of the statement of financial activities is a loss £792,000(2009: gain of £429,000).

Notes *(continued)*

15 Pension scheme *(continued)*

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

	2010 Fair value £000	2009 Fair value £000
Equities	1,029	684
Corporate bonds	103	78
Property	90	52
Cash	64	52
	<u>1,286</u>	<u>866</u>
Actual return on plan assets	<u>360</u>	<u>(322)</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:

	2010 %	2009 %
Discount rate	5.5	6.9
Expected rate of return on plan assets	7.3	6.6
Future salary increases	5.3	4.6
Inflation / pension increase rate	3.8	3.1

In valuing the liabilities of the pension fund at 31 March 2010, 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

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Present value of scheme liabilities	(2,885)	(1,628)	(1,578)	(1,846)	(1,851)	(1,439)
Fair value of scheme assets	1,286	866	1,254	1,303	1,151	1,253
	<u>(1,599)</u>	<u>(762)</u>	<u>(324)</u>	<u>(543)</u>	<u>(700)</u>	<u>(186)</u>

Notes (continued)

15 Pension scheme (continued)

Experience adjustments

	2010 £000/%	2009 £000/%	2008 £000/%	2007 £000/%	2006 £000/%	2005 £000/%
Experience adjustments on scheme liabilities [as a percentage of scheme liabilities]	(7) / (0.4)	(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]	300 / 23.3	(518) / (59.8)	(195) / (15.6)	12 / 0.9	149 / 12.9	32 / 2.6

The Trust expects to contribute approximately £74,000 to its defined benefit plans in the next financial year to 31 March 2011.

Subsequent to the year end, the UK Government announced its intention to move to CPI, from RPI, as the basis for setting pension increases within public sector pensions, including the local government pension scheme. No adjustment has been required to these financial statements as a result of this announcement. It is not possible to quantify at this time what impact the change will have on the net pension liability going forward.

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.