



Shetland
Charitable Trust

Shetland Charitable Trust

**Trustees' report and consolidated
financial statements**

Charity number SC027025

31 March 2008

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Shetland Charitable Trust

Chair's Introduction

The work of the Trust has continued steadily throughout the year. This is largely carried out through the other charities which we fund, with few members of the public coming into direct contact with this Trust and even then usually being referred on to the specialist agencies. This leads to many people being unaware of our Trust's work and of the contribution it makes to Shetland's current way of life. In the coming year we must lay the plans to "blow our own trumpet" more frequently and bring the Trust's work to people's notice.

To do this among other tasks, it has become clear that we certainly need to recruit a second senior manager and I look forward to a suitable candidate being found to help move ahead the many matters which have had to be placed on back burners while more urgent affairs were attended to.

Our staff, ably led by our Acting General Manager, Jeff Goddard, have worked hard and efficiently to ensure that the routine activities and all the imperatives which have come up have been attended to, and any new appointment will find an able and willing group to take the Trust forward. We thank them and appreciate their efforts.

This year ends with many eyes on the stock market which, although fluctuating far more than usual, has defied gravity and remained within reach of its recent peaks. This has enabled the realisation of sufficient assets to see us through most (possibly all) of the next financial year before we need further cash to carry on the work of the Trust. The forecasts for the market continue to be fairly grim and it may be a considerable time before any semblance of stability returns so that we can breath easily and with confidence that our income is assured. In the meantime our local investments are producing a steady yield.

Much has been said and written about the Trust's decision to buy the Viking Energy windfarm project from Shetland Islands Council. An enormous amount of work, mainly related to the Environmental Impact Assessment which will accompany the consent application to Scottish Ministers, has been done and is still being done. The application will be lodged sometime during the coming year.

This is almost certainly the only stage of this project at which the Trust can afford to take a substantial stake, while it is in its infancy, should it obtain consent, that will clear the way to confirm or amend many of the estimates to enable Trustees to decide what course to take with regard to the full development. The investigation so far continues to indicate a worthwhile project to pursue.

Fourteen new Trustees joined the Trust at the start of the year and they (and the "veterans") are learning the ropes of the running of a trust and making an ever growing contribution. We look forward to some lively debates and to an interesting future.

Bill Manson
Chair
Shetland Charitable Trust
8 December 2008

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 (appointed May 2007)
James Budge, Bigton Farm, Bigton (appointed May 2007)
Barbara Jane Cheyne, Hillside, Voe (resigned May 2007)
Alexander Jamieson Cluness, 5 Twageos Road, Lerwick
Alastair Thomas James Cooper, Linga, Mossbank (appointed May 2007)
Adam Thomas Doull, Islesburgh, Sullom (appointed May 2007)
Allison George Leslie Duncan, 1 Hillock, Dunrossness (appointed May 2007)
Cecil Burgess Eunson, East Voe, Scalloway (deceased 25 December 2007)
Robert Geoffrey Feather, Klingrahoul, Gulberwick (resigned May 2007)
Elizabeth Laureen Fullerton, Valdur, Bridge End, Burra (appointed May 2007)
Florence Barbara Grains, Hoove, Whiteness
Brian Philip Gregson, 5 Sunnyside, Mid Yell (resigned May 2007)
Leonard George Groat, 10 Voderview, Lerwick (resigned May 2007)
Iris Jean Hawkins, 48 Sycamore Avenue, Scalloway
Robert Simpson Henderson, Maraberg, Cullivoe, Yell (appointed May 2007)
Andrew James Hughson, Brunthamarsland House, Girlsta (appointed May 2007)
John Alistair Inkster, Bon Abri, Hamnavoe (resigned May 2007)
James Christopher Irvine, 20 Twageos Road, Lerwick (resigned May 2007)
Edward John Knight, 13 Gressy Loan, Lerwick (resigned May 2007)
Caroline Helen Janette Miller, Heogan, Bressay (appointed May 2007)
Gordon Gilbert Mitchell, Thistles, Bigton (resigned May 2007)
John Peter Nicolson, Scarfataing, Trondra (resigned May 2007)
Richard Chadsey Nickerson, Ringan, Bigton (appointed May 2007)
Valerie Margaret Lillias Nicolson, Midgarth, Twagoes Road, Lerwick
William Andrew Ratter, Hillhead, Ollaberry (resigned May 2007)
Frank Andrew Robertson, Columbus, Selivoe, Bridge of Walls
Gary Robinson, 17 Burnside, Lerwick (appointed May 2007)
Joseph Gilbert Simpson, Brucefield, Symbister, Whalsay
John Hamilton Scott, Keldabister Banks, Bressay
Cecil Laing Smith, 1 Westerloch Crescent, Lerwick (appointed May 2007)
Thomas William Stove, Nordaal Setter, Sandwick (resigned May 2007)
William Nicolson Stove, 1 Lovers Loan, Lerwick (resigned May 2007)
William Tait, Bonavista, East Ireland, Bigton (resigned May 2007)
Jonathon Witney Garriock Wills, Sundside, Bressay (appointed 10 March 2008)
Allan Sinclair Wishart, Seafielde Lodge, Lower Sound, Lerwick (appointed May 2007)

Trustees' Report *(continued)*

Chief Executive	Morgan Goodlad	
Acting General Manager and Financial Controller	Jeff Goddard	
Bankers	Bank of Scotland 117 Commercial Street Lerwick ZE1 0DL	
Auditors	KPMG LLP 37 Albyn Place Aberdeen AB10 1JB	
Solicitors	Turcan Connell Princes Exchange 1 Earl Grey Street Edinburgh EH3 9EE	
Investment	Insight Investment Management Managers 33 Old Broad Street, London, EC2N 1HZ,	Capital International 40 Grosvenor Place London, SW1X 7GG, (to 10 August 2008)
	Record Currency Management Ltd Morgan House Madeira Walk Windsor Berkshire SL4 1EP	Barclays Global Investors Ltd Murray House Royal Mint Court London EC3N 4HH (from 11 August 2008)
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 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

The Trust has twenty-four Trustees, namely, the twenty-two 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*. There is no recruitment or appointment process. The Trust Deed of Shetland Charitable Trust 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 eight directly employed staff. The General Manager's role is to ensure that the charitable activities carried out by the Trust are appropriate, 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 protecting its charitable status 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.

Strategic Link

Shetland Charitable Trust is an independent and unique organisation. It is strategically linked to Shetland Islands Council but there is no financial relationship between the two parties (except on 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. However, the day to day responsibility for the Trust rests with the General Manager, who is employed directly by the Trust.

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:

Trustees' Report *(continued)*

Shetland Leasing & Property Developments Limited (SLAP)	William Manson - Chair
	Barbara Cheyne – Vice Chair (resigned May 2007)
	James Henry – Vice Chair (appointed May 2007)
	Alexander Cluness
	Allison Duncan (appointed May 2007)
	Florence Grains (resigned May 2007)
	Iris Hawkins (appointed May 2007)
	Caroline Miller (appointed May 2007)
	William Ratter (resigned May 2007)
	Cecil Eunson (deceased 25 December 2007)
	William Tait (resigned May 2007)
Allan Wishart (appointed May 2007)	

The same directors were appointed to serve on the board of SLAP's subsidiary company, SLAP (Trading) Limited.

Shetland Heat Energy & Power Limited (SHEAP)	William Stove - Chair (resigned May 2007)
	Edward Knight (resigned May 2007)
	James Irvine – Vice Chair (resigned May 2007)
	James Henry
	William Manson (resigned May 2007)
	Allison Duncan (appointed May 2007)
	Richard Nickerson – Vice Chair (appointed May 2007)
	Gary Robinson - Chair (appointed May 2007)
Allan Wishart (appointed May 2007)	

C. T. Shetland (T. M.) Limited	Florence Grains
	Iris Hawkins
	Thomas Stove (resigned May 2007)
	William Manson (appointed May 2007)
	William Tait (resigned May 2007)
	James Henry (appointed May 2007)

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. The outcome of this review has yet to be reported to Trustees.

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)*]

Trustees' Report *(continued)*

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

Strategic Partnership

The Trust is a strategic partner with 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 intention is that the two organisations remain strategically linked but operationally independent.

The Trust wishes to ensure that the charitable activities it carries out are appropriate and complementary to those activities carried out by the 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 set out below.

- to determine the strategic service framework within which any bid for funding from the Trust should be considered;
- to determine an appropriate level and standard of service to be provided and express that in a Service Statement or Service Level Agreement (as appropriate);
- to determine the appropriate cost at which to buy that service with due regard to comparable information and funding from other sources; and
- to determine 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 can only provide professional advice, any decision to support a project or activity, or not to, lies with the Trustees.

Grant Making Policy

At the moment, the Trust can 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), 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. Turning to the current three year period ending on 31 March 2009, Trustees have agreed that expenditure needs to be reduced by a further £1 million pa to comply with the Trust's long term objective of 'self sustainability', ie only spending the (average) growth in the fund after inflation, and so preserving the real value of the capital sum.

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. Where items of business have been transacted in private, a Press Release is made available, summarising the decisions taken. This is available from the Trust's office, the afternoon after a meeting has taken place.

Section 4: Achievements and Performance

Service Plan

During the year, the Trust 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 2008, 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
- COPE Ltd
- Couple Counselling Shetland
- Disability Shetland
- Festivals: Fiddle and Accordion
- Festivals: Folk Festival
- Shetland Alcohol Advice Service
- Shetland Amenity Trust
- Shetland Art Therapy
- Shetland Arts
- Shetland Befriending Scheme
- Shetland Churches Trust
- Shetland Community Drugs Team
- Shetland Council of Social Service
- Shetland Link-up
- Shetland Recreational Trust
- Shetland Youth Information Service
- The Swan

The Trust 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 has take 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 2007, 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
- Shetland Field Studies Service
- Employment of Disabled
- Equalisation of Residential Care Charges
- *Community Alarm System*
- Local Charitable Organisations
- Social Assistance Grants
- Bus Services Elderly and Disabled

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. Some £405,495 of this grant has been paid out. Trustees also agreed to make a contribution to a major refurbishment of Red Cross House in Aberdeen, which is widely used by Shetland residents as accommodation while attending, or accompanying relatives attending, hospitals in Aberdeen. Work also began on a programme of upgrading the Fire Safety arrangements in the six rural care homes owned by the Trust. Shetland Health Board awarded a grant of £115,500 towards the project, which is due to be completed by 31 March 2009.

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 the current year, 2008/09, Trustees have set a new 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 this autumn. At this point (December 2008), 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 has performed well in 2007/08 and has generated profits for the Shetland Charitable Trust group ahead of expectations. This has offset the slightly below expected profits of the district heating scheme company SHEAP. 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 comfortably below £600,000 in 2007/08. 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 eleven in 2005/06 to eight in 2007/08, and this is also reflected in the reduction in management and administration costs.

Charitable Expenditure

Year to 31 March 2008

	Original budget £000	Vire/ enhance £000	Current budget £000	Actual spend £000	Variance £000
Charitable Organisations					
Shetland Amenity Trust	1,011	-	1,011	1,011	-
Shetland Arts Development Agency	731	129	860	806	54
Shetland Field Studies Service	-	54	54	16	38
Shetland Recreational Trust	2,761	-	2,761	2,761	-
Islesburgh Trust	-	66	66	10	56
Shetland Welfare Trust (one off costs)	-	-	-	2	(2)
Shetland Youth Information Service	170	-	170	170	-
COPE Limited	-	138	138	138	-
Citizens Advice Bureau	127	-	127	127	-
Voluntary Services Resource Centre	140	-	140	140	-
Shetland Churches Council Trust	56	-	56	56	-
SCSS – Childrens Befriending Scheme	53	-	53	53	-
SCSS – New Shetlander	1	-	1	1	-
Shetland Community Drugs Team	-	80	80	80	-
Shetland Alcohol Advice Service	-	150	150	150	-
Disability Shetland Recreation Club	9	-	9	9	-
Womens Royal Voluntary Service	-	38	38	38	-
The Swan Trust	40	-	40	40	-
Shetland Link Up	47	-	47	47	-
Shetland Link Up – Art Therapy	25	-	25	25	-
Relate Shetland	12	-	12	12	-
Red Cross	-	30	30	30	-
Sub total: Charitable Organisations	5,183	-	5,868	5,722	146

	Original budget £000	Vire/ enhance £000	Current budget £000	Actual spend £000	Variance £000
Projects					
Independence at Home Scheme	-	107	107	33	74
Community Alarm Scheme	101	24	125	101	24
Xmas grant Scheme	1,085	-	1,085	1,102	(17)
Capital Grants to Voluntary Bodies	-	7	7	6	1
Equalisation of Charges	2,843	-	2,843	2,843	-
Community Development Grants	31	-	31	11	20
Community Support Grants	52	-	52	52	-
Festival Grants	30	-	30	30	-
Arts Grant Scheme	40	-	40	26	14
Social Assistance Grants	52	4	56	32	24
Senior Citizens Clubs	24	1	25	22	3
Buses for Elderly and Disabled	48	-	48	48	-
Local Charitable Organisations	18	-	18	15	3
Sheltered Housing Heating	25	-	25	25	-
Employment of Disabled	14	-	14	11	3
Springfield Running costs	2	-	2	1	1
CATs Scanner Appeal	Previous year		600	405	195
Sub total: Projects	4,365		5,108	4,763	345

Trustees' Report *(continued)*

	Original budget £000	Vire/ enhance £000	Current budget £000	Actual spend £000	Variance £000
Property Advice & Maintenance					
PMP – Miscellaneous properties	10	-	10	-	10
Shetland Amenity Trust	286	-	286	286	-
Shetland Arts (including Weisdale Mill)	89	-	89	62	27
Shetland Recreational Trust	611	-	611	611	-
Market House	9	-	9	13	(4)
Swan Trust	20	-	20	20	-
Rural Care Homes Fire Safety	-	314	314	211	103
less Grant for R C H Fire Safety	-	-	(116)	(116)	-
Rural Care Homes Building Mgt Systems	-	150	150	95	55
Springfield Chalet	3	-	3	-	3
Maintenance 22-24 North Road	22	-	22	8	14
Sub total: Property Advice & Maintenance	1,050	-	1,398	1,190	208
Overall total	10,598	-	12,374	11,675	699

Section 5: Financial Review

Growth and Unrestricted Funds

The old 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 new 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.

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 Income and Expenditure Account is 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 2008) of the Trust's reserves that are invested to generate income (ie not the 'Donated Properties') is around £213 million, which covers expenditure for around 20 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 set aside 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 Trust in three main areas:

- Shares and other securities quoted on the world's Stock Exchanges
- Temporary loans on the money markets
- Subsidiary companies

Trustees' Report *(continued)*

Stock Exchanges

As at 31 March 2008, three fund managers manage the Trust's Stock Exchanges portfolio. Capital International manage around £137 million invested in equities (shares), Insight Investment manage around £53 million in bonds and property, and Record Currency Management manage around £3 million in currency. The key element of the return experienced by the Trust is the performance of the markets, and in 2006/07 market returns were negative, and overall market movements led to a decline in the Trust's investments of 8.3%.

This review covers the year to 31 March 2008, but it would be remiss not to note the extraordinary downturn in the markets in the autumn of 2008. Trustees will review the investment strategy in 2009, but meantime are sitting tight and not crystallising paper losses. Fortunately the Trust had built up cash reserves before the worst of the falls, which has avoided the need for precipitate reaction.

Representatives from the Trust's fund managers visit Shetland yearly in May or June and report to special meetings of the Trustees. In addition, a Trustee, normally the Chairman, accompanies the Financial Controller and/or his representative on monitoring visits. These take place yearly in October, November or December.

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.

Money Markets

The Shetland Islands Council handles temporary loans on the money markets, under the terms of a service level agreement with the Trust. Surplus short term cash achieves at least the Base Rate through this mechanism.

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 £2,885,091 to Shetland Charitable Trust in the financial year 2007/08.

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 just over £10 million and it generated rental income of just over £1 million in 2007/08. The Directors believe that this represents a 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 seventh 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 £234,643 was made to the Trust in the financial year 2007/08. SHEAP has around 1,000 customers receiving heat.

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, and will do so again in 2009, in parallel with the process of selecting a new manager for equities.

Trustees' Report *(continued)*

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. The current period covers 2006/07 to 2008/09, and Trustees agreed to seek to reduce ongoing expenditure by a further £1 million per annum over that period. Some progress has been made, but savings of around £700,000 will be required if the Trust is to achieve its aim of balancing its books by 31 March 2009.

Trustees have set a new 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

The Trustee body saw 14 changes in 2007. As well as an initial induction process, Trustees have received relevant training, with key areas covered including managing conflicts of interest, the Trust's budget process and monitoring performance against the investment strategy.

Current Financial Position

The new 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. This is a major piece of work for Trustees and the newly appointed general manager, who takes up her post in January 2009.

Service Plans

In their Service Plan, Trustees have identified a number of action points. These include reviewing our communication arrangements, looking to improve the information available about the Trust, perhaps in the areas of websites, newsletters etc..

Funded Bodies

Trustees could 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.

Risk Management

Trustees have begun to repeat the full risk management review process last carried out in 2006.

W. Manson
Chair

8 December 2008

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.



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 2008 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 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 2008 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

17 December 2008

Consolidated statement of financial activities

for the year ended 31 March 2008

	Note	Unrestricted funds		2008 Total £000	2007 Total £000
		General funds £000	Expendable endowment £000		
Incoming resources					Restated
<i>Incoming resources from generated funds</i>					
Activities for generating funds		2,451	-	2,451	2,626
Investment income		8,684	-	8,684	6,941
<i>Other incoming resources</i>					
Rental income		1,644	-	1,644	1,797
Other income		390	-	390	256
Value of buildings donated to the Trust	4	-	-	-	8,186
Total incoming resources		13,169	-	13,169	19,806
Resources expended					
<i>Cost of generating funds</i>					
Expenditure of trading subsidiaries	6	(980)	-	(980)	373
Investment management costs		(1,216)	-	(1,216)	(991)
Bad debt provision		-	(621)	(621)	-
<i>Charitable activities</i>	2	(12,090)	(1,221)	(13,311)	(13,457)
<i>Governance costs</i>	2	(69)	-	(69)	(66)
Total resources expended		(14,355)	(1,842)	(16,197)	(14,141)
Net (outgoing) incoming resources before other recognised gains and losses		(1,186)	(1,842)	(3,028)	5,665
Other recognised gains and losses					
Realised gains on managed fund investments		-	14,272	14,272	7,387
Unrealised (losses) gains on managed fund investments		-	(38,804)	(38,804)	1,442
Revaluation of tangible fixed assets		26	-	26	-
Actuarial gains in defined benefit pension scheme		232	-	232	145
Net movement in funds		(928)	(26,374)	(27,302)	14,639
Fund balances brought forward as previously reported		(18,773)	265,005	246,232	
Prior year adjustment		576	-	576	
Fund balances brought forward		(18,197)	265,005	246,808	232,169
Fund balances carried forward		(19,125)	238,631	219,506	246,808

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 2008

	Note	Unrestricted funds		2008 Total £000	2007 Total £000 Restated
		General funds £000	Expendable endowment £000		
Incoming resources					
<i>Incoming resources from generated funds</i>					
Investment income		8,684	-	8,684	6,941
Gift aid payment from subsidiary undertakings	6	3,098	-	3,098	7,453
<i>Other incoming resources</i>					
Rental income		1,644	-	1,644	1,797
Other income		390	-	390	256
Value of buildings donated to the Trust	4	-	-	-	8,186
Total incoming resources		13,816	-	13,816	24,633
Resources expended					
<i>Cost of generating funds</i>					
Investment management costs	2	(1,216)	-	(1,216)	(991)
Provision released (made) against equity investment			588	588	2,122
Bad debt provision			(621)	(621)	
<i>Charitable activities</i>	2	(12,090)	(1,221)	(13,311)	(13,457)
<i>Governance costs</i>	2	(69)	-	(69)	(66)
<i>Other resources expended</i>					
Interest payable on loan from subsidiary		(2,157)	-	(2,157)	(1,580)
Total resources expended		(15,532)	(1,254)	(16,786)	(13,972)
Net (outgoing) incoming resources before other recognised gains and losses		(1,716)	(1,254)	(2,970)	10,661
Other recognised gains and losses					
Realised gains on managed fund investments		-	14,272	14,272	7,387
Unrealised (losses) gains on managed fund investments		-	(38,804)	(38,804)	1,442
Actuarial gains in defined benefit pension scheme		232	-	232	145
Net movement in funds		(1,484)	(25,786)	(27,270)	19,635
Total funds brought forward as previously reported		1,499	244,733	246,232	
Prior year adjustment		-	461	461	
Total funds brought forward as restated		1,499	245,194	246,693	227,058
Fund balances carried forward		15	219,408	219,423	246,693

Consolidated balance sheet
at 31 March 2008

		2008		2007 Restated	
	<i>Note</i>	£000	£000	£000	£000
Fixed assets					
Tangible assets	4		23,015		23,767
Investments:					
Investments	5	193,005		214,962	
Programme-related investments	6	7,152		8,369	
			<u>200,157</u>		<u>223,331</u>
Total fixed assets			<u>223,172</u>		<u>247,098</u>
Current assets					
Stocks		40		24	
Debtors	8	2,803		2,453	
Investments		3		3,813	
Cash at bank and in hand		6,268		5,681	
			<u>9,114</u>		<u>11,971</u>
Total current assets		<u>9,114</u>		<u>11,971</u>	
Creditors: amounts falling due within one year	9	<u>(10,878)</u>		<u>(10,358)</u>	
Net current (liabilities) assets			<u>(1,764)</u>		<u>1,613</u>
Total assets less current liabilities			<u>221,408</u>		<u>248,711</u>
Provisions for liabilities and charges	11		<u>(1,578)</u>		<u>(1,360)</u>
Net assets excluding pension liability			<u>219,830</u>		<u>247,351</u>
Pension liability	14		<u>(324)</u>		<u>(543)</u>
Net assets including pension liability			<u>219,506</u>		<u>246,808</u>
Represented by:					
Expendable endowment	12		238,631		265,005
Unrestricted income funds:					
General funds	13		(6,244)		(3,819)
Trading funds	13		(12,583)		(13,835)
Revaluation reserve			26		-
			<u>(18,801)</u>		<u>(17,654)</u>
Unrestricted income funds excluding pension liability			<u>(18,801)</u>		<u>(17,654)</u>
Pension reserve	13		<u>(324)</u>		<u>(543)</u>
Total unrestricted funds			<u>(19,125)</u>		<u>(18,197)</u>
Total charity funds			<u>219,506</u>		<u>246,808</u>

These financial statements were approved by the trustees on 8 December 2008 and were signed on their behalf by:

WH Manson
Chairman

JH Henry
Vice-Chairman

Trust balance sheet
at 31 March 2008

		2008		2007 Restated	
	<i>Note</i>	£000	£000	£000	£000
Fixed assets					
Tangible assets	4		11,742		12,562
Investments:					
Investments	5	193,005		214,962	
Programme-related investments	6	52,888		52,403	
			<u>245,893</u>		<u>267,365</u>
Total fixed assets			<u>257,635</u>		<u>279,927</u>
Current assets					
Debtors	8	2,059		1,717	
Investments		3		1,103	
Cash at bank and in hand		2,642		3,692	
Total current assets		<u>4,704</u>		<u>6,512</u>	
Creditors: amounts falling due within one year	9	<u>(4,592)</u>		<u>(4,203)</u>	
Net current assets			<u>112</u>		<u>2,309</u>
Total assets less current liabilities			<u>257,747</u>		<u>282,236</u>
Creditors: amounts falling due outwith one year	10		<u>(38,000)</u>		<u>(35,000)</u>
Net assets excluding pension liability			<u>219,747</u>		<u>247,236</u>
Pension liability	14		<u>(324)</u>		<u>(543)</u>
Net assets including pension liability			<u>219,423</u>		<u>246,693</u>
Represented by:					
Expendable endowment	12		219,408		245,194
Unrestricted income funds					
General funds	13		339		2,042
Pension reserve	13		(324)		(543)
Total unrestricted funds			<u>15</u>		<u>1,499</u>
			<u>219,423</u>		<u>246,693</u>

These financial statements were approved by the trustees on 8 December 2008 and were signed on their behalf by:

WH Manson
Chairman

JH Henry
Vice-Chairman

Consolidated cash flow statement
for the year ended 31 March 2008

	2008		2007 Restated	
	£000	£000	£000	£000
Net cash inflow (outflow) from operating activities		(10,071)		10,529
Returns on investment and servicing of finance				
Investment income and interest received		10,881		8,062
Capital expenditure and financial investment				
Purchase of managed funds investments	(267,680)		(201,454)	
Purchase of tangible fixed assets	(504)		(1,195)	
Loans advanced	-		(297)	
Sale of managed funds investments	265,199		188,431	
Sale of tangible fixed assets	263		130	
Loans repaid	(1,217)		1,465	
	<hr/>		<hr/>	
Net cash (outflow) inflow from capital expenditure and financial investment		(3,939)		(12,920)
Acquisitions and disposals				
Investment in subsidiary	-		-	
Proceeds from disposal of subsidiary	-		-	
	<hr/>		<hr/>	
Net cash inflow from acquisitions and disposals		-		-
Management of liquid resources				
Funds (deposited) withdrawn from short term deposit (net)		3,716		(5,033)
		<hr/>		<hr/>
Increase (decrease) in cash in the year		<u>587</u>		<u>638</u>

Notes to the consolidated cash flow statement

for the year ended 31 March 2008

Reconciliation of net (outgoing) incoming resources to net cash inflow (outflow) from operating activities	2008 £000	2007 £000 Restated
Net (outgoing) incoming resources	(3,028)	5,665
Investment income and interest receivable	(8,684)	(8,010)
Depreciation written off and impairment of tangible fixed assets	1,256	1,250
Gain on sale of tangible fixed assets	-	(47)
Movement in pension liability	13	(12)
Decrease (increase) in stock	(16)	
Donated assets receivable	-	(8,186)
Decrease (increase) in debtors	(350)	19,663
Increase (decrease) in creditors	520	210
(Decrease) increase in provisions	218	(4)
	<hr/>	<hr/>
Net cash inflow (outflow) from operating activities	(10,071)	10,529
	<hr/> <hr/>	<hr/> <hr/>
 Reconciliation of net cash flow to movement in net funds		
Increase (decrease) in cash in the year	587	638
Cash outflow (inflow) from increase (decrease) in liquid resources	(3,716)	5,033
	<hr/>	<hr/>
Change in net funds resulting from cash flows	(3,129)	5,671
Net funds at the start of the year	16,186	10,515
	<hr/>	<hr/>
Net funds at the end of the year	13,057	16,186
	<hr/> <hr/>	<hr/> <hr/>
 Net funds comprise:		
Cash in hand held by investment managers	6,786	6,692
Temporary deposits	3	3,813
Cash at bank and in hand	6,268	5,681
	<hr/>	<hr/>
	13,057	16,186
	<hr/> <hr/>	<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 except that the 2006-07 figures originally reported have been restated in respect of the following matters.

Consolidated financial statements

Up to and including the year ended 31 March 2007, the Trust's subsidiary company Shetland Leasing and Property Development Limited accounted for its interest in two properties held on leases greater than 20 years as prepayments. During the year ended 31 March 2008, that subsidiary company has reviewed this treatment and has decided it would be better that these interests should be accounted for as investment properties in accordance with SSAP 19 *Investment properties*. The comparative consolidated financial statements have been restated accordingly. The effect of this restatement is to increase the interest in investment properties of the group at 31 March 2007 by £6,250,000, to reduce group prepayments at that date by £5,590,635, and to increase the deferred tax liability of the group at that date by £197,809. Net incoming resources for the year ended 31 March 2007 was increased by £105,609. The overall effect on group net assets at 31 March 2007 was an increase of £461,556.

Additionally, amounts of £368,297 previously shown as accumulated depreciation of investment properties at 31 March 2007 have been netted against the gross cost/valuation of investment properties to more accurately reflect the nature of these amounts as valuation deficits.

Prior to 2007-08, the Trust did not consolidate the results of its subsidiary company Shetland Heat Energy and Power Limited as the Trustees did not consider it to be material to the overall operations of the Trust. The Trustees have decided that the activities of this subsidiary should be consolidated from 2007-08 onwards due to the increased significance of its operations. The comparative financial statements have been restated accordingly. The effect of this restatement was to increase net incoming resources for the group for the year ended 31 March 2007 by £912,000 and increase group resources expended by £743,000. Total fixed assets decreased by £285,000 while net current assets increased by £400,000. The overall effect on group net assets as at 31 March 2007 was an increase of £115,000.

Financial statements of the Trust

The financial statements of the Trust for the year ended 31 March 2006 accounted for a Gift Aid payment to the Trust from its subsidiary undertaking Shetland Leasing and Property Development Limited. As the payment was not made until during the year ended 31 March 2007, in accordance with the recognition criteria of FRS 21 *Events after the balance sheet date*, the comparative financial statements have been restated to correctly recognise the payment in that year. The effect of this adjustment was to decrease the balance of the Trust's general funds at 1 April 2006 by £7,453,154, and increase the Trust's incoming resources from generated funds in the year ended 31 March 2007 by £7,453,154. There was no change to the net assets of the Trust as at 31 March 2007.

The impact of this adjustment on the Trust was to increase programme-related investments increased by £461,556, leading to an increase in net assets of £461,556. This was due to reversal of the provision made within the Trust financial statements against the cost of the investment.

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.

In preparing the financial statements, the Trustees have re-evaluated the accounting and reporting requirements of SORP 2005. Accordingly, certain information reported previously has been omitted. In addition, certain classifications have been adopted in preparing these financial statements for which comparative information has been restated.

Notes (continued)

1 Accounting policies (continued)

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

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.

Activities for generating funds

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. 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.

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.

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.

Notes (continued)

1 Accounting policies (continued)

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

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.

Notes (continued)

1 Accounting policies (continued)

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 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:

	2008	2007
	£000	£000
General funds		Restated
Payments to charitable organisations	5,722	5,659
Project expenditure	4,763	4,229
Property advice and maintenance	1,190	1,163
Capital expenditure projects	-	719
	<hr/>	<hr/>
Total charitable grants	11,675	11,770
Support costs	415	463
	<hr/>	<hr/>
Total charitable expenditure – general funds	12,090	12,233
	<hr/>	<hr/>
Expendable endowment		
Depreciation – see note 4	1,221	1,224
	<hr/>	<hr/>
Total resources expended on charitable activities	13,311	13,457
	<hr/> <hr/>	<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 £415,000 (2007: £463,000) principally represent administration expenses and are all deemed to be attributable to the group's charitable activities. Included within administration expenses is £258,000 (2007: £321,000) in respect of staff costs (see note 3).

Governance costs

Governance costs totalling £69,000 (2007: £66,000) comprise the costs associated with the Trust's compliance with charity regulation and good practice. They include £30,000 (2007: £30,000) representing an appropriate apportionment of salary costs together with trustees' expenses (see note 3) and audit fees of £25,000 (2007: £23,000).

	Group and charity	
	Total	Total
	2008	2007
	£	£
Allocation of staff and support costs, including trustees allowance and expenses (see note 3)	30	30
Other costs	14	13
External auditors' remuneration:		
Audit of these financial statements	25	23
Audit of subsidiary undertakings (excluded from charitable governance costs)	36	31
	<hr/>	<hr/>
Total governance costs	69	66
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

3 Staff numbers and costs

The group had an average of 9 employees during the year (2007: 9). The aggregate payroll costs of these employees was as follows:

	2008 £000	2007 £000
Wages and salaries	206	243
Social security costs	16	20
Pension costs	36	58
	258	321

One employee (2007: 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 (2007: £7,500) from the group during the year. Expenses totalling £1,433 (2007: £2,404) were reimbursed to 17 trustees (2007: 21 trustees) during the year.

4 Tangible fixed assets

Group	Land and buildings	District heating scheme infrastructure	Investment properties	Vessel and aircraft	Other	Total
	£000	£000	£000	£000	£000	£000
<i>Cost or valuation</i>						
At beginning of year (restated)	24,461	14,567	10,351	860	415	50,654
Additions	-	401	-	5	98	504
Disposals	-	-	(263)	-	-	(263)
Revaluation	-	-	26	-	-	26
Reversal of revaluation deficit	-	-	288	-	-	288
	24,461	14,968	10,402	865	513	51,209
<i>Depreciation</i>						
At beginning of year (restated)	15,430	11,036	-	221	200	26,887
Charge for year	1,073	148	-	33	53	1,307
Disposals	-	-	-	-	-	-
	16,503	11,184	-	254	253	28,194
<i>Net book value</i>						
At 31 March 2008	7,958	3,784	10,402	611	260	23,015
At 31 March 2007	9,031	3,531	10,351	639	215	23,767

Notes (continued)

4 Tangible fixed assets (continued)

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 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:

	2008 £000	2007 £000
Plant and machinery, fixtures and fittings held by Shetland Heat Energy and Power Ltd	258	215
Assets under construction held by Shetland Leasing and Property Development Limited	2	-
	260	215

	Land and buildings £000	Donated buildings £000	District heating scheme infrastructure £000	Total £000
Charity				
<i>Cost</i>				
At beginning of year	16,275	8,186	14,567	39,028
Additions	-	-	401	401
	16,275	8,186	14,968	39,429
<i>Depreciation</i>				
At beginning of year	14,611	819	11,036	26,466
Charge for year	254	819	148	1,221
	14,865	1,638	11,184	27,687
<i>Net book value</i>				
At 31 March 2008	1,410	6,548	3,784	11,742
At 31 March 2007	1,664	7,367	3,531	12,562

Notes (continued)

5 Managed funds

	2008 Market Value £000	2008 Cost £000	2007 Market Value £000	2007 Cost £000
Group and Charity				
Listed investments:				
British Government securities	27,174	26,564	20,148	20,365
Other UK fixed interest	14,898	15,713	21,166	21,382
Overseas fixed interest	4,807	3,828	3,502	3,398
	<hr/> 46,879	<hr/> 46,105	<hr/> 44,816	<hr/> 45,145
UK equities	90,865	101,007	109,359	89,495
Overseas equities	41,198	41,977	45,317	38,842
Property units	7,463	5,887	8,778	5,887
	<hr/> 139,526	<hr/> 148,871	<hr/> 163,454	<hr/> 134,224
Total investments	186,405	194,975	208,270	179,369
Cash on deposit and in hand	6,600	6,786	6,692	6,692
	<hr/> 193,005	<hr/> 201,762	<hr/> 214,962	<hr/> 186,061
			2008 £000	2007 £000
<i>Reconciliation of market value of investments</i>				
Market value at beginning of year			214,962	191,884
Investments purchased			267,680	201,454
Investments sold			(265,199)	(188,431)
Realised gains on investments sold			14,272	7,387
Unrealised (losses) gains on investments			(38,804)	1,442
Movement in investment managers' cash balances			94	1,226
			<hr/> 193,005	<hr/> 214,962

As at 31 March 2008, the Trust's funds other than programme-related investments are managed by Insight Investment Management, Capital International and Record Currency Management Limited. The split of the portfolio between the investment managers is as follows:

	2008 Market value £000	2008 Cost £000	2007 Market value £000	2007 Cost £000
Insight Investment Management	52,712	50,547	51,049	48,505
Capital International	137,781	148,702	160,843	134,486
Record Currency Management Limited	2,512	2,512	3,070	3,070
	<hr/> 193,005	<hr/> 201,761	<hr/> 214,962	<hr/> 186,061

Notes (continued)

6 Programme-related investments

	Group		Charity	
	2008 £000	2007 £000	2008 £000	2007 £000
Equity - see below	5,527	5,501	51,279	50,690
Loans - see note 7	1,625	2,868	1,609	1,713
	<u>7,152</u>	<u>8,369</u>	<u>52,888</u>	<u>52,403</u>
Equity - Group	Shares in subsidiary undertakings £000	Unlisted investments £000	Total £000	
<i>Cost</i>				
At beginning of year (restated)	6,251	1,101	7,352	
Additions	1	25	26	
At end of year	<u>6,252</u>	<u>1,126</u>	<u>7,378</u>	
<i>Provisions</i>				
At beginning and end of year	750	1,101	1,851	
<i>Net book value</i>				
At 31 March 2008	<u>5,502</u>	<u>25</u>	<u>5,527</u>	
At 31 March 2007	<u>5,501</u>	<u>-</u>	<u>5,501</u>	
Equity - Charity		Shares in subsidiary undertakings £000		
<i>Cost</i>				
At beginning of year				70,500
Additions				1
At end of year				<u>70,501</u>
<i>Provisions</i>				
At beginning of year (restated)				19,810
Released in year (as a result of in-year result of trading subsidiaries)				(588)
At end of year				<u>19,222</u>
<i>Net book value</i>				
At 31 March 2008				<u>51,279</u>
At 31 March 2007				<u>50,690</u>

Notes (continued)

6 Programme-related investments (continued)

The group's investments in subsidiary undertakings principally represent its shareholdings in the following subsidiary, 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>
Shetland Leasing and Property Developments Limited	Leasing and property development	100	Direct
Shetland Heat Energy and Power Limited	Supply of heating	100	Direct
SLAP (Trading) Limited	Leasing and hire purchase	100	Indirect
Viking Energy Limited	Non-trading	50	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.

	Year end date	(Loss) profit for the financial year £000	Aggregate capital and reserves £000
SLAP (Trading) Limited	31 March 2008	(9)	5,470

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

	2008 SLAP D £000	2008 SHEAP £000	2008 Total £000	2007 Total £000
Turnover	1,060	1,028	2,088	1,878
Cost of sales	(146)	(452)	(598)	(548)
Gross profit (loss)	914	576	1,490	1,330
Administration expenses	(59)	(395)	(454)	(458)
Gift aid payment to Shetland Charitable Trust	(2,863)	(235)	(3,098)	(7,453)
Other operating income	102	3	105	215
Operating (loss)	(1,906)	(51)	(1,957)	(6,366)
Reversal of investment property valuation deficit	288	-	288	45
Gain on disposal of investment properties	-	-	-	47
Interest receivable and similar income	2,393	22	2,415	2,113
Interest payable and similar charges	-	-	-	(7)
Profit (loss) on ordinary activities before taxation	775	(29)	746	(4,168)
Tax on profit (loss) on ordinary activities	(214)	(3)	(217)	1,294
Profit (loss) on ordinary activities after taxation being profit (loss) for the financial year	561	(32)	529	(2,874)

Notes (continued)

6 Programme-related investments (continued)

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

	2008	2007
	Total	Total
	£000	£000
Cost of sales	598	548
Administration expenses	454	458
Interest payable and similar charges	-	7
Reversal of investment property valuation deficit	(286)	(45)
Gain on disposal of tangible fixed assets	-	(47)
Tax charge (credit) on profit on ordinary activities	214	(1,294)
	980	(373)
	980	(373)

Included within the companies profit (loss) for the year is a total of £3,097,911 (2007: £7,453,154) 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:

	2008	2008	2008	2007
	SLAP D	SHEAP	Total	Total
	£000	£000	£000	£000
Tangible fixed assets	16,540	258	16,798	16,705
Current assets	41,869	579	42,448	41,659
Current liabilities	(5,879)	(208)	(6,087)	(5,878)
Creditors greater than one year	(1,753)	(46)	(1,799)	(1,679)
	50,777	583	51,360	50,807
	50,777	583	51,360	50,807
Called up share capital	70,000	500	70,500	70,500
Profit and loss account	(19,249)	83	(19,166)	(19,693)
Revaluation reserve	26	-	26	-
	50,777	583	51,360	50,807
	50,777	583	51,360	50,807

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.

7 Programme-related investments – Loans

	2008	2007
	£000	£000
Group		
Agricultural Ten Year Loan Scheme	1,669	1,805
Agricultural Bridging Loan Scheme	17	43
Provisions for doubtful debts	(77)	(135)
	1,609	1,713
Local loans granted by Shetland Leasing and Property Developments Limited (net of provisions)	16	1,155
	1,625	2,868
	1,625	2,868

Notes (continued)

7 Programme-related investments – Loans (continued)

Charity	2008 £000	2007 £000
Agricultural Ten Year Loan Scheme	1,669	1,805
Agricultural Bridging Loan Scheme	17	43
Provisions for doubtful debts	(77)	(135)
	1,609	1,713
	1,609	1,713

8 Debtors

	Group		Charity	
	2008 £000	2007 £000	2008 £000	2007 £000
		restated		
Trade debtors	763	323	-	-
Amounts owing from subsidiary undertaking	-	-	22	40
Prepayments and accrued income	1,688	996	1,686	995
Other debtors:				
Loan repayments due	30	47	30	46
VAT recoverable	21	15	21	15
Tax recoverable	-	621	-	621
Sundry debtors	301	451	300	-
	2,803	2,453	2,059	1,717
	2,803	2,453	2,059	1,717

9 Creditors: amounts falling due within one year

	Group		Charity	
	2008 £000	2007 £000	2008 £000	2007 £000
		restated		
Trade creditors	91	89	-	-
Rents in advance	63	59	-	-
Amounts owed to SICCT 1976	2,903	2,962	2,903	2,916
Amount owed to subsidiary undertakings	5,450	5,476	-	-
Other tax and social security	308	50	-	-
Other creditors and accruals	2,063	1,402	1,689	1,287
	10,878	10,038	4,592	4,203
	10,878	10,038	4,592	4,203

10 Creditors: amounts falling due after more than one year

Charity	2008 £000	2007 £000
Loan from subsidiary undertaking	38,000	35,000
	38,000	35,000
	38,000	35,000

The loan of £38,000,000 (2007: £35,000,000) 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)

11 Provisions for liabilities and charges

Group	Deferred taxation £000
At beginning of year (restated)	1,360
Charge for the year	181
Charge relating to a prior year	122
Adjustment for change in rate of tax	(85)
	1,578
At end of year	1,578

The deferred tax liability arising within the Trust's subsidiary companies at the year end of £1,578,000 (2007: £1,360,000) is analysed as follows:

	2008 £	2007 £ restated
Accelerated capital allowances	342	254
Other timing differences: Gift aid	1,184	1,063
Other timing differences	52	43
	1,578	1,360
	1,578	1,360

12 Expendable endowment

Group	General funds £000	Unrealised investment gains (losses) £000	Total £000
At beginning of year	241,030	23,975	265,005
Net movement on funds	12,430	(38,804)	(26,404)
	253,460	(14,829)	238,631
At end of year	253,460	(14,829)	238,631
Charity	General funds £000	Unrealised investment gains (losses) £000	Total £000
At beginning of year as previously reported	220,758	23,975	244,733
Prior year adjustment	461	-	461
	221,219	23,975	245,194
At beginning of year as restated	221,219	23,975	245,194
Net movement on funds	13,018	(38,804)	(25,786)
	234,237	(14,829)	219,408
At end of year	234,237	(14,829)	219,408

Notes *(continued)*

13 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 as previously reported	(4,280)	(13,950)	-	(543)	(18,773)
Prior year adjustment	461	115	-	-	576
At beginning of year as restated	(3,819)	(13,835)	-	(543)	(18,197)
Net movement in funds	(2,425)	1,252	26	219	(928)
At end of year	(6,244)	(12,583)	26	(324)	(19,125)
			General funds £000	Pension reserve £000	Total unrestricted income funds £000
Charity					
At beginning of year			2042	(543)	1,499
Net movement in funds			(1,703)	219	(1,484)
At end of year			339	(324)	15

The deficit balance on the trading funds of £12,583,000 (2007: £13,835,000 as restated) 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 £6,244,000 (2007: deficit of £3,769,000 as restated) 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 £324,000 (2007: £543,000 deficit) was a surplus of £339,000 (2007: £2,042,000).

14 Pension scheme

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

The pension cost charge for the year included within resources expended is £36,000 (2007: £58,000). The agreed employer contribution rate for future years is 13.5 %.

A full actuarial valuation of the scheme was performed as at 31 March 2005 and has been updated by the actuary as at 31 March 2008 on a set of assumptions consistent with those required under FRS 17.

The major assumptions used in this valuation were:

	2008	2007	2006
Rate of increase in salaries	5.1%	4.7%	4.6%
Rate of increase in pensions in payment	3.6%	3.2%	3.1%
Discount rate	6.9%	5.4%	4.9%
Inflation assumption	3.6%	3.2%	3.1%

Notes (continued)

14 Pension scheme (continued)

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Scheme assets

The fair value of the Trust's share of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the Trust's share of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Value at 31 March 2008 £000	Value at 31 March 2007 £000	Value at 31 March 2006 £000
Equities	1,050	1,171	1,053
Bonds	73	96	74
Property	57	-	-
Cash	74	36	24
	<hr/>	<hr/>	<hr/>
	1,254	1,303	1,151
Present value of liabilities	(1,578)	(1,846)	(1,851)
	<hr/>	<hr/>	<hr/>
Deficit in the scheme on FRS 17 basis	(324)	(543)	(700)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

	Long term rate of return 2008	Long term rate of return 2007	Long term rate of return 2006
Equities	7.7%	7.8%	7.4%
Bonds	5.7%	4.9%	4.6%
Property	5.7%	5.8%	5.5%
Cash	4.8%	4.9%	4.6%

Analysis of movement in deficit during the year:

	2008 £000	2007 £000
Deficit in scheme at beginning of year	(543)	(700)
Current service cost	(64)	(83)
Contributions paid	52	58
Past service cost	-	45
Other finance (cost) income	(1)	(8)
Actuarial gains (losses)	232	145
	<hr/>	<hr/>
Deficit in scheme at end of year	(324)	(543)
	<hr/> <hr/>	<hr/> <hr/>

Analysis of the amount charged within resources expended:

	2008 £000	2007 £000
Current service cost	64	83
Curtailement and settlements	-	-
	<hr/>	<hr/>
	64	83
	<hr/> <hr/>	<hr/> <hr/>

Notes *(continued)*

14 Pension scheme (continued)

Analysis of the amount (charged) credited to investment income:

	2008	2007
	£000	£000
Expected return on pension scheme assets	100	84
Interest on pension scheme liabilities	(101)	(92)
	(1)	(8)
	(1)	(8)

Analysis of the actuarial gain (loss) recognised in other recognised gains and losses:

	2008	2007
	£000	£000
Actuarial return less expected return on scheme assets	(195)	12
Experience gains and losses arising on scheme liabilities	3	(35)
Change in assumptions underlying the present value of scheme liabilities	424	168
	232	145
	232	145

History of experience gains and losses:

	2008	2007
Difference between the expected and actual return on scheme assets:		
Amount (£000)	(195)	12
Percentage of scheme assets	(15.6%)	0.9%
Experience gains and losses on scheme liabilities:		
Amount (£000)	3	(35)
Percentage of present value of scheme liabilities	0.2%	(1.9%)
Total actuarial gain (loss) recognised in statement of total recognised gains and losses		
Amount (£000)	232	145
Percentage of present value of scheme liabilities	14.7%	7.9%

15 Related parties

In the normal course of business, 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 76, 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. The Trust received payment of £13,000 (2007: £8,000) from SICCT 1976 during the year, with an amount owing to SICCT 1976 at 31 March 2008 of £2.903 million (2007: £2.916 million).

Notes *(continued)*

15 **Related parties** *(continued)*

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 (2007: £5,476,370). This includes a loan of £5,450,000 (2007: £5,250,000) 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.

16 **Contingent liability**

During the year, HM Revenue and Customs have initiated an investigation into the taxable status of the Christmas grant payments made by the Trust in 2006-07. While the Trust paid a certain level of tax on the payments made, there is a possibility that as a consequence of the investigation that additional tax may become payable. While the current investigation relates only to 2006-07, if additional tax becomes due this may apply also to payments made in 2007-08. The Trust does not believe that any additional tax is payable, over that already paid to HM Revenue and Customs and accordingly has made no provision in these financial statements.