



Trustees' report and consolidated  
financial statements

Charity number SC027025

31 March 2011

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## Chair's introduction

Following an excellent year for our investments, this has been one where growth has closely matched our expenditure. With no consensus on the likely trend in stock markets except that the foreseeable future will be volatile and difficult, we must be vigilant and continue to seek savings where we can and not to allow our outgoings to rise.

In the year just gone we have succeeded in reaching our goal in terms of reduced spending. With the final phase of the savings sought and planned by the Funded Bodies Review Group, expenditure was reduced by £1M+. This has been due to hard work by our officials and to cooperation and equally hard work from the bodies funded by this Trust. Our thanks to them.

On the governance of the Trust and, in particular, of the composition of the Trustee body, progress has been regrettably slow but has resumed with the seeking of a legal opinion from senior counsel. It is of the utmost importance that this matter is resolved during the incoming year, bringing the Trust into compliance with Scottish charity legislation and enabling it to concentrate on the future and how it can best assist its beneficiaries and not be continually examining its navel and/or trapped by its past, however successful that past may have been. It is highly desirable that this issue be resolved to have the new structure in place before the next Shetland Islands Council elections in May 2012 so that there is clarity for all the parties.

Meanwhile the Trust continues steadily and perhaps too unobtrusively to establish its own identity and policies. I invite anyone interested to visit the website which contains a large and growing fund of information about it and its activities.

This has been another busy year and the incoming one promises to be just as busy. Despite much planning the workflow fluctuates markedly, which presents challenges to our small core staff. They cope admirably and I thank them and their leaders on behalf of the Trustees.



Bill Manson  
Chairman

8 September 2011

## Trustees' Report

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

**Name** Shetland Charitable Trust

**Scottish Charity Number** SC027025

**Address** 22-24 North Road, Lerwick, Shetland, ZE1 0NQ

#### **Trustees**

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

**General Manager** Dr Ann Black

**Financial Controller** Jeff Goddard CA, PhD, BSc

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

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

## Trustees' Report *(continued)*

<b>Solicitors</b>	Turcan Connell Princes Exchange 1 Earl Grey Street Edinburgh EH3 9EE
<b>Investment Managers</b>	Insight Investment Management (Global) Limited 33 Old Broad Street, London, EC2N 1HZ  Blackrock Global Investors Limited Murray House Royal Mint Court London EC3N 4HH  Schroders Property Managers 31 Gresham Street London EC2V 7QA
<b>Custodian</b>	The Northern Trust Company 50 Bank Street Canary Wharf London E14 5NT
<b>Investment Consultant</b>	Hymans Robertson LLP 20 Waterloo Street Glasgow G2 6DB
<b>Investment Monitor</b>	WM Limited 525 Ferry Road Edinburgh EH5 2AW

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

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

#### **Governing Document**

The Shetland Charitable Trust was established by a Deed of Trust on 10 September 1997, and registered in the Books of Council and Session on 24 September 1997.

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

#### **Charitable Status**

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

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

The Trust has twenty-three Trustees, twenty-one of the Councillors of Shetland Islands Council as individuals, the Lord Lieutenant of Shetland and the Head Teacher of the Anderson High School. All are appointed *ex officio*, that is to say by virtue of their positions in the community. A list of names and addresses of Trustees can be found on page 2.

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

A delegation from the Trust met with OSCR in November 2008 to discuss general issues regarding the governance of the Trust, including the need to evidence independence and compliance with Section 66 of the Charities and Trustee Investment (Scotland) Act 2005. A Governance Review Group was set up in February 2009 to develop proposals which would meet the needs of the Trust and the approval of OSCR. The Governance Review Group's recommended model was presented to a meeting of Trustees in February 2010. At that meeting, Trustees deferred a decision on the final structure of the Trustee body. After taking further legal advice, new proposals are being worked up, which will be presented to Trustees in due course.

#### **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 carried out in furtherance of its purposes, represent value for money and complement the needs and aspirations of the community, as the primary beneficiaries of the Trust, all in accordance with the Trust Deed and the law. The Financial Controller is responsible for the effective management of the Trust's liquid resources. This includes ensuring that charitable status is retained and putting in place effective investment policies. Some specialist services are purchased from other providers, under various service level agreements.

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

#### **Complementary Services**

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

## Trustees' Report *(continued)*

### Subsidiary Companies

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

<b>Shetland Leasing and Property Developments Limited (SLAP)</b>	James Henry – Chair William Manson – Vice Chair Alexander Cluness Adam Doull Allison Duncan Iris Hawkins Robert Henderson Caroline Miller
<b>Shetland Heat Energy and Power Limited (SHEAP)</b>	Gary Robinson – Chair Richard Nickerson – Vice Chair Allison Duncan Robert Henderson James Henry
<b>C. T. Shetland (T. M.) Limited (non-trading)</b>	William Manson - Chair Florence Grains Iris Hawkins James Henry

### Viking Energy Limited

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

William Manson – Chair  
Alastair Cooper  
Caroline Miller

### Risk Management

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

A review was undertaken by a Working Group of Trustees, which reported to the Trust in March 2011. This identified 33 risks which may impact on the business of the Trust. In this review, two have been classified as “red”, 12 as “amber” and 19 as “green”, depending on the likelihood of occurrence and the severity of the impact should it occur. Priority will be given to dealing with any issue which has a high likelihood of occurring and a significant impact on service delivery should it occur. Only two “red” risks were identified, neither of which were in the “catastrophic” category. Both were in the area of conflict of interest and compliance with charity law, an area which is under constant review.

### Disclosure of information to auditors

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

## Trustees' Report *(continued)*

### **Section 3: Objectives and Activities**

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

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

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

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

#### **Priorities**

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

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

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



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

### **Shetland Islands Council**

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

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

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

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

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

### **Grant Making Policy**

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

### **Funded Bodies – Performance Monitoring**

Any grant recipient is subject to "Performance Monitoring". During the application process, applicants must give details of what activities they provide in the community, who they benefit and what difference they make to life in Shetland. The Trust's staff monitor the actual performance of the funded bodies against those described in the relevant application form, and report exceptions to Trustees.

## Trustees' Report *(continued)*

### Financial Objectives

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

Turning to the current three year period ending on 31 March 2012, Trustees have agreed that expenditure needs to be reduced by at least £1.2 million to £11 million pa to comply with the Trust's long term strategy of 'self sustainability', ie only spending the (average) growth in the fund after inflation, and so preserving the real value of the capital sum. Trustees set the budget for 2010/11 at £11 million, and so have reached their target a year early. This completes a process started in 2002 and the Trust is at last back in financial balance in line with the long term strategy of "self-sustainability".

Trustees have agreed to continue with the long-term financial strategy of passing the "pot" on to future generations, and so limiting annual expenditure to the average growth on the investments above inflation. Trustees have agreed to set budgets of no more than £11 million for each of the next three years, 2012/13, 2013/14 and 2014/15.

### Budgets

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

### Minutes

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

## *Section 4: Achievements and Performance*

### Service Plan

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

- looking after the Trust, by protecting the assets and keeping proper accounts (this is mostly achieved by Trustee monitoring and the operation of an appropriate system of Internal Controls);
- investing funds wisely, to earn money but also to maintain the Trust's capital value (investment performance for the year is reviewed in Section 5); and
- 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 2011, 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: Folk Festival
- Shetland Link-up
- Shetland Amenity Trust
- The Swan
- Shetland Arts
- Shetland Befriending Scheme
- Shetland Churches Council Trust
- Festivals: Fiddle and Accordion
- Voluntary Action Shetland
- Shetland Recreational Trust
- Shetland Youth Information Service

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

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 November 2010, which set out, in detail, how the Trust's money makes a difference to people and communities. In the main, Trustees were satisfied that most organisations were performing satisfactorily against their stated targets, and there were no significant areas of concern.

The Trust also supports a range of charitable projects and schemes, as set out below:

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

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

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

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

In 2009/10, Trustees agreed to make a one-off contribution of £250,000 to the CLAN 123 Appeal, which seeks to fund a facility for cancer sufferers and their relatives who have to travel to Aberdeen from Shetland for treatment. A grant condition was that the grant would only be paid out once confirmation had been received that the project would definitely go ahead. The grant was paid out this year. Work is coming to an end on a programme of upgrading the Fire Safety arrangements in the six rural care homes owned by the Trust.

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 six 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. The final column gives a comparison with last year.

### **Financial Performance**

In 2008/09, Trustees set a three year financial policy for the years up to 31 March 2012. This policy required Trustees to reduce expenditure by £1.2 million to £11 million per annum by 31 March 2012. This policy was set before the spectacular falls in share values in 2007 and 2008 and the strong bounce back the year to 31 March 2010, which showed returns (income and capital growth) of over £50 million, the Trust's best ever year. 2010/11 was a quieter year, with overall investment returns being around £15.4 million (about 7%). The Trust's target is to be self-sustaining with net investable assets of £220 million (in March 2009 money). The strong returns from the world's markets and good performance of the local investments meant that at 31 March 2011, the Trust was close to the target.

Details of the activities and performance of the Trust's subsidiary companies are provided in Section 5 of this report. In summary, SLAP and SHEAP have generated profits for the Trust in 2010/11, with SLAP performing particularly well. The rentals from the land at the Sullom Voe terminal also made a useful contribution.

## Trustees' Report (continued)

The Trust continues to review its own management and administration costs. These have fallen from over £900,000 in 2002/03 to under £600,000 in 2010/11 following the introduction of service level agreements with the Shetland Islands Council for the provision of agreed, specific, expert work, as negotiated by the Trust's independent management. The Trust staff reduced from 11 in 2005/06 to eight in 2007/08. Numbers had risen to nine with the appointment of a General Manager, but have recently fallen back to eight following the amalgamation of two posts into one.

### Charitable Expenditure Year to 31 March 2011

	Original Budget	Vire/ enhance	Current budget	Actual spend to 31 March	year to date variance	spend 2010
	£	£	£	£	£	£
<b>Trusts over £0.5m</b>						
Shetland Amenity Trust	1,052,728		1,052,728	1,052,728	-	1,080,228
Shetland Arts Development Agency	696,038		696,038	696,038	-	773,376
Shetland Recreational Trust	2,518,550		2,518,550	2,518,550	-	2,781,550
<b>Other Charitable Organisations</b>						
Disability Shetland Recreation Club	12,641		12,641	12,641	-	12,641
Shetland Field Studies Service	-		0	0	-	37,206
The Swan Trust	48,900		48,900	48,900	-	48,900
VAS - New Shetlander	670		670	670	-	370
Shetland Churches Council Trust	54,075		54,075	54,075	-	54,115
Shetland Youth Information Service	188,840		188,840	188,840	-	188,840
Shetland Befriending Scheme	54,418		54,418	54,418	-	55,935
Citizens Advice Bureau	132,265		132,265	132,265	-	147,850
COPE Limited	154,967	175,000	329,967	329,967	-	154,968
Couple Counselling Shetland	12,000		12,000	12,000	-	12,000
Shetland Link Up	47,994		47,994	47,994	-	47,994
Shetland Link Up - Art Therapy	-		-	-	-	26,212
Voluntary Action Shetland	144,367		144,367	144,367	-	144,412
VAS - ICT Replacement	-	19,750	19,750	19,750	-	-
Festival Grants	30,000		30,000	30,000	-	30,000
Local Charitable Organisations	14,000		14,000	12,572	1,428	12,572
Womens Royal Voluntary Service	-	47,622	47,622	47,622	-	51,498
Cost of change (Trusts)	-		-	641	-641	25,059
<b>Sub Total Charitable Organisations</b>	<b>5,162,453</b>	<b>242,372</b>	<b>5,404,825</b>	<b>5,404,038</b>	<b>787</b>	<b>5,685,726</b>
<b>Schemes</b>						
Independence at Home Scheme	-		-	-	-	1,199
Community Development Grants	22,272	8,859	13,413	12,826	587	12,742
Community Support Grants	64,321	8,859	73,180	73,180	-	73,805
Arts Grant Scheme	35,000		35,000	26,715	8,285	29,217
Sheltered Housing Heating	25,500		25,500	25,500	-	26,010
Senior Citizens Clubs	23,000		23,000	17,809	5,191	18,439
Support to Rural Care Model	2,491,000		2,491,000	2,491,000	-	3,291,189
Social Assistance Grants	35,000		35,000	25,177	9,823	21,470
Buses for Elderly and Disabled	49,980		49,980	51,960	-1,980	48,000
Supported Employment	8,000		8,000	7,179	821	7,503
<b>Sub Total Schemes</b>	<b>2,754,073</b>	<b>-</b>	<b>2,754,073</b>	<b>2,731,346</b>	<b>22,727</b>	<b>3,529,574</b>

## Trustees' Report *(continued)*

<b>Direct Schemes</b>						
Springfield	1,500		1,500	1,467	33	556
Xmas grant Scheme	578,000		578,000	482,041	95,959	506,590
Planned Maintenance	1,261,660	44,926	1,306,586	1,285,920	20,666	1,307,518
<b>Sub Total Direct Schemes</b>	<b>1,841,160</b>	<b>44,926</b>	<b>1,886,086</b>	<b>1,769,428</b>	<b>116,658</b>	<b>1,814,664</b>
<b>One-Off Projects</b>						
Fire Upgrades in Rural Care Homes			251,323	184,476	66,847	342,277
CLAN 123	-		250,000	250,000	-	-
New Museum and Archives	-		-	-	-	83,265
<b>Sub Total One-Off Projects</b>	<b>-</b>	<b>-</b>	<b>501,323</b>	<b>434,476</b>	<b>66,847</b>	<b>425,542</b>
Surplus Grants Refunded			-	-20,034	20,034	64,706
<b>sub-total - charitable expenditure</b>				<b>10,319,254</b>		<b>11,390,800</b>
Trust Administration	544,464		544,464	518,518	25,946	545,000
<b>Total</b>	<b>10,302,150</b>	<b>287,298</b>	<b>11,090,771</b>	<b>10,837,772</b>	<b>252,999</b>	<b>11,935,800</b>

Total charitable expenditure and administration costs are shown before adjustment for pension adjustments under FRS 17 totalling £226,000, as detailed in Note 2 to the financial statements.

### **Section 5: Financial Review**

#### **Growth and Unrestricted Funds**

The Trust relies chiefly on funds generated by investments on the world's Stock Exchanges. In 2010/11, around £4 million income was derived from investments in Shetland, valued at around £30 million, in SLAP, the land at Sullom Voe Terminal and the District Heating Scheme infrastructure.

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

#### **Reserves Policy**

The policy of the Trustees is to invest the reserves of the Trust to generate income to support charitable expenditure and to maintain the real value of the reserves in the long term. The current value (as at 31 March 2011) of the Trust's reserves that are invested to generate income (ie not the 'Donated Properties') is around £217 million, which covers current levels of expenditure for around 20 years.

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

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

## Trustees' Report *(continued)*

### Investment Performance

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

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

### Stock Exchanges

As at 31 March 2011, three fund managers managed the Trust's Stock Exchanges portfolio. Blackrock Global Investors (formerly Barclays Global Investors) manage around £110 million invested in equities (shares), Insight Investment manage around £50 million in bonds, and Schroders Property Managers manage around £18 million in commercial property.

This review covers the year to 31 March 2011, which turned out to be an ordinary year in terms of market returns, unlike the last two.

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

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

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

### Cash on Deposit

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

### Subsidiary Companies

Shetland Leasing and Property Developments Limited (SLAP) is a wholly owned subsidiary of the Trust. Its main activity is the purchasing, developing and letting of about 30 properties throughout Shetland. SLAP gift aids its profits to the Trust. The property portfolio is valued at £20 million and it generated rental income of over £2.5 million in 2010/11. The Board of Directors resolved to make a gift aid payment of £2.7 million to the Trust in the financial year 2010/11. This mechanism means that neither body pays tax on the profits.

SLAP (Trading) Limited was a wholly owned subsidiary of SLAP which was formed to undertake hire purchase and loan finance. A decision was taken in 2002 not to undertake any new hire purchase agreements, and with the existing agreements coming to an end, the company has come to the end of its useful life. SLAP (Trading) Limited had no assets or liabilities at 31 March 2011, and was wound up on 20 May 2011.

Shetland Heat Energy and Power Limited (SHEAP), is a wholly owned subsidiary of the Trust, set up to operate the Lerwick District Heating Scheme. SHEAP has over 1,000 customers receiving heat. The Board of Directors resolved to make a gift aid payment of £339,037 to the Trust in the financial year 2010/11.

Viking Energy Limited is a 90% owned subsidiary of the Trust. The Trust has invested £2.7 million at 31 March 2011. It is presently investigating a very large wind farm project in central Shetland.

## Trustees' Report *(continued)*

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

### Decisions about Investments

When the Trustees make decisions about investing the Trust's capital, the law requires them to seek appropriate advice and act as reasonably prudently as commercial investors would. An investor is concerned with various criteria when investing money; these include rate of return (dividends / income / rent / interest earned), capital growth, and just how safe the money is. This applies whether the investments are on a Stock Exchange, or when they involve local assets. 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 2011.

### **Current Financial Position**

As described in Section 3 above, the Trust agreed in 2002 that in future Trustees would update its financial policy and set new budget strategies on a triennial basis. Trustees have set a financial policy for the three years to 2011/12, of reducing expenditure by £1.2 million to £11 million per annum over that period. This target has been achieved a year early. Trustees re-affirmed their long term financial strategy of self-sustainability in June 2011 and set a new three year financial plan of setting budgets of no more than £11 million in each of the next three financial years, 2012/13, 2013/14 and 2014/15.

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

### **Trustees**

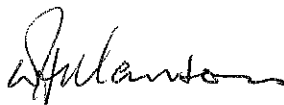
Trustees are continuing to explore options for a new structure for the Trustee body, with a view to reaching a solution acceptable to all parties in the near future.

### **Financial Position**

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

### **Investment Strategy**

Trustees have to balance the higher average return but higher variation in annual returns of shares with the lower but more consistent average annual returns of other assets suitable for an institutional investor. After considering appropriate advice, Trustees have continued with an investment strategy based on a 50% shares:50% non-shares approach. Trustees have considered the legal, financial and ethical aspects of various possible socially responsible investment mechanisms. Trustees have agreed to a policy of engagement on these issues with investee companies, through the fund managers.



**WH Manson**  
*Chair*

8 September 2011

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

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

The financial statements are required by law to give a true and fair view of the state of affairs of the charity and of the excess of expenditure over income for that period.

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

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

The trustees are required to act in accordance with the Trust Deed of the charity, within the framework of trust law. They are responsible for keeping proper accounting records, sufficient to disclose at any time, with reasonable accuracy, the financial position of the group and charity at that time, and to enable the trustees to ensure that, where any statements of accounts are prepared by them under section 44 (1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 10 of the Charities Accounts (Scotland) Regulations 2006 and the Trust Deed, those statements of accounts comply with the requirements of regulations under that provision. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and charity and to prevent and detect fraud and other irregularities.

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





37 Albyn Place  
Aberdeen  
AB10 1JB  
United Kingdom

## **Independent auditor's 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 2011 set out on pages 16 to 38. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 auditor**

As explained more fully in the Statement of Trustees' Responsibilities set out on page 14, the trustees are responsible for the preparation of financial statements which give a true and fair view.

We have been appointed as auditor under section 44 (1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and report to you in accordance with the regulations made under that Act. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at <http://www.frc.org.uk/apb/scope/private.cfm>.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the charity's affairs as at 31 March 2011 and of the group's and charity's incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Charities Accounts (Scotland) Regulations 2006 (as amended) require us to report to you if in our opinion:

- the information given in the Trustees' Annual Report is inconsistent in any material respect with the financial statements; or
- the charity has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

**DJ Watt**  
For and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
*Eligible to act as an auditor in terms of section 1212 of the Companies Act 2006*

15 September 2011

## Consolidated statement of financial activities

for the year ended 31 March 2011

	Note	Unrestricted funds		2011 Total £000	2010 Total £000
		General funds £000	Expendable endowment £000		
<b>Incoming resources</b>					
<i>Incoming resources from generated funds</i>					
Activities for generating funds – trading subsidiaries	6	4,479	-	4,479	4,181
Investment income		4,824	-	4,824	4,750
<i>Other incoming resources</i>					
Rental income		1,287	-	1,287	1,141
Other income		66	-	66	167
Total incoming resources		10,656	-	10,656	10,239
<b>Resources expended</b>					
<i>Cost of generating funds</i>					
Expenditure of trading subsidiaries	6	(3,396)	-	(3,396)	(2,108)
Investment management costs		(645)	-	(645)	(196)
<i>Charitable activities</i>	2	(10,611)	(1,326)	(11,937)	(13,234)
<i>Governance costs</i>	2	(81)	-	(81)	(79)
Total resources expended		(14,733)	(1,326)	(16,059)	(15,617)
Net (outgoing) resources before other recognised gains and losses		(4,077)	(1,326)	(5,403)	(5,378)
<b>Other recognised gains and losses</b>					
Gains on managed fund investments		-	7,825	7,825	46,836
Actuarial (losses) gains in defined benefit pension scheme	14	260	-	260	(792)
<b>Net movement in funds</b>		(3,817)	6,499	2,682	40,666
Fund balances brought forward		(21,088)	238,182	217,094	176,428
<b>Fund balances carried forward</b>		(24,905)	244,681	219,776	217,094

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

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

## Trust statement of financial activities

for the year ended 31 March 2011

	Note	Unrestricted funds		2011 Total £000	2010 Total £000
		General funds £000	Expendable endowment £000		
<b>Incoming resources</b>					
<i>Incoming resources from generated funds</i>					
Investment income		4,805	-	4,805	4,750
Gift aid receipts from subsidiary undertakings	6	3,048	-	3,048	4,170
<i>Other incoming resources</i>					
Rental income		1,287	-	1,287	1,141
Other income		56	-	56	67
<b>Total incoming resources</b>		<b>9,196</b>	<b>-</b>	<b>9,196</b>	<b>10,128</b>
<b>Resources expended</b>					
<i>Cost of generating funds</i>					
Investment management costs		(645)	-	(645)	(196)
Provision (made) against equity investment		-	(1,340)	(1,340)	(1,655)
<i>Charitable activities</i>	2	(10,611)	(1,326)	(11,937)	(13,234)
<i>Governance costs</i>	2	(81)	-	(81)	(79)
<i>Other resources expended</i>					
Interest payable on loan from subsidiary		(583)	-	(583)	(275)
<b>Total resources expended</b>		<b>(11,920)</b>	<b>(2,666)</b>	<b>(14,586)</b>	<b>(15,439)</b>
Net (outgoing) resources before other recognised gains and losses		(2,724)	(2,666)	(5,390)	(5,311)
<b>Other recognised gains and losses</b>					
Gains on managed fund investments		-	7,825	7,825	46,836
Actuarial gains/(losses) in defined benefit pension scheme	14	260	-	260	(792)
<b>Net movement in funds</b>		<b>(2,464)</b>	<b>5,159</b>	<b>2,695</b>	<b>40,733</b>
Total funds brought forward		54	217,001	217,055	176,322
<b>Fund balances carried forward</b>		<b>(2,410)</b>	<b>222,160</b>	<b>219,750</b>	<b>217,055</b>

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

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

**Consolidated balance sheet**  
*at 31 March 2011*

	<i>Note</i>	2011 £000	2010 £000
<b>Fixed assets</b>			
Tangible assets	4	30,748	29,853
Investments:			
Investments	5	178,793	180,583
Programme-related investments	6, 7	2,631	2,481
		<u>181,424</u>	<u>183,064</u>
<b>Total fixed assets</b>		<b>212,172</b>	<b>212,917</b>
<b>Current assets</b>			
Stocks		42	36
Debtors	8	3,328	2,388
Cash at bank and in hand		8,802	7,610
		<u>12,172</u>	<u>10,034</u>
<b>Total current assets</b>		<b>12,172</b>	<b>10,034</b>
<b>Creditors: amounts falling due within one year</b>	9	<b>(2,317)</b>	<b>(3,111)</b>
		<u>9,855</u>	<u>6,923</u>
<b>Net current assets</b>		<b>9,855</b>	<b>6,923</b>
<b>Total assets less current liabilities</b>		<b>222,027</b>	<b>219,840</b>
<b>Provisions for liabilities and charges</b>	11	<b>(1,138)</b>	<b>(1,147)</b>
		<u>220,889</u>	<u>218,693</u>
<b>Net assets excluding pension liability</b>		<b>220,889</b>	<b>218,693</b>
Pension liability	14	(1,113)	(1,599)
		<u>219,776</u>	<u>217,094</u>
<b>Net assets including pension liability</b>		<b>219,776</b>	<b>217,094</b>
<b>Represented by:</b>			
Expendable endowment	12	244,681	238,182
Unrestricted income funds:	13		
General funds		(17,219)	(11,804)
Trading funds		(6,937)	(7,961)
Revaluation reserve		64	26
Minority interest		300	250
		<u>(23,792)</u>	<u>(19,489)</u>
Unrestricted income funds excluding pension reserve		<b>(23,792)</b>	<b>(19,489)</b>
Pension reserve	13	(1,113)	(1,599)
		<u>(24,905)</u>	<u>(21,088)</u>
<b>Total unrestricted income funds</b>		<b>(24,905)</b>	<b>(21,088)</b>
<b>Total charity funds</b>		<b>219,776</b>	<b>217,094</b>

These financial statements were approved by the trustees on 8 September 2011 and were signed on their behalf by:

**WH Manson**  
Chairman



**JH Henry**  
Vice-Chairman





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

**Trust balance sheet**  
*at 31 March 2011*

	Note	2011 £000	2010 £000
<b>Fixed assets</b>			
Tangible assets	4	10,701	11,571
Investments:			
Investments	5	178,793	180,583
Programme-related investments	6, 7	51,616	52,611
		230,409	233,194
<b>Total fixed assets</b>		241,110	244,765
<b>Current assets</b>			
Debtors	8	2,559	1,312
Cash at bank and in hand		4,454	4,865
		7,013	6,177
<b>Total current assets</b>		7,013	6,177
<b>Creditors: amounts falling due within one year</b>	9	(1,260)	(1,288)
<b>Net current assets</b>		5,753	4,889
<b>Total assets less current liabilities</b>		246,863	249,654
<b>Creditors: amounts falling due outwith one year</b>	10	(26,000)	(31,000)
<b>Net assets excluding pension liability</b>		220,863	218,654
Pension liability	14	(1,113)	(1,599)
<b>Net assets including pension liability</b>		219,750	217,055
<b>Represented by:</b>			
Expendable endowment	12	222,160	217,001
Unrestricted income funds			
General funds	13	(1,297)	1,653
Pension reserve	13	(1,113)	(1,599)
		(2,410)	54
<b>Total unrestricted income funds</b>		219,750	217,055

These financial statements were approved by the trustees on 8 September 2011 and were signed on their behalf by:

<p> <b>WH Manson</b> Chairman</p>	<p> <b>JH Henry</b> Vice-Chairman</p>
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The notes on pages 22 to 38 form a part of these financial statements.

**Consolidated cash flow statement**  
*for the year ended 31 March 2011*

	2011		2010	
	£000	£000	£000	£000
<b>Net cash outflow from operating activities</b>		(10,288)		(8,773)
<b>Returns on investment and servicing of finance</b>				
Investment income and interest received		4,805		4,750
<b>Capital expenditure and financial investment</b>				
Purchase of managed funds investments	(11,781)		(29,634)	
Purchase of tangible fixed assets	(4,268)		(3,594)	
Purchase of shares within joint venture	(455)		(1,415)	
Sale of managed funds investments	28,933		58,679	
Loans repaid	205		258	
	-----		-----	
<b>Net cash inflow from capital expenditure and financial investment</b>		12,634		24,294
<b>Management of liquid resources</b>				
Net movement in cash flows attributable to managed fund investments		(4,522)		(21,461)
Funds (deposited) withdrawn from short term deposit (net)		(1,437)		1,727
		-----		-----
<b>Increase in cash in the year</b>		1,192		537
		=====		=====

**Notes to the consolidated cash flow statement**  
*for the year ended 31 March 2011*

<b>Reconciliation of net (outgoing) resources to net cash outflow from operating activities</b>	<b>2011</b> <b>£000</b>	<b>2010</b> <b>£000</b>
Net (outgoing) resources	(5,403)	(5,378)
Investment income and interest receivable	(4,805)	(4,750)
Depreciation and impairment of tangible fixed assets	1,443	1,392
Movement in pension liability, excluding actuarial gains and losses	226	45
Increase in stock	(6)	(10)
Increase in debtors	(940)	(516)
Decrease in creditors	(794)	(4,703)
Decrease in provisions	(9)	(319)
Increase in provision for programme related investments	-	5,466
	<hr/>	<hr/>
<b>Net cash outflow from operating activities</b>	<b>(10,288)</b>	<b>(8,773)</b>
	<hr/> <hr/>	<hr/> <hr/>
 <b>Reconciliation of net cash flow to movement in net funds</b>		
Increase in cash in the year	1,192	537
Cash outflow (inflow) from increase (decrease) in liquid resources	1,437	(1,727)
	<hr/>	<hr/>
Change in net funds resulting from cash flows	2,629	(1,190)
Net funds at the start of the year	7,606	8,796
	<hr/>	<hr/>
Net funds at the end of the year	10,235	7,606
	<hr/> <hr/>	<hr/> <hr/>
<b>Net funds comprise:</b>		
Cash in hand held by investment managers	1,433	(4)
Cash at bank and in hand	8,802	7,610
	<hr/>	<hr/>
	<b>10,235</b>	<b>7,606</b>
	<hr/> <hr/>	<hr/> <hr/>

## Notes to the financial statements

*(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Trust's financial statements.

#### ***Basis of preparation***

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

#### ***Basis of consolidation***

These financial statements consolidate the assets and liabilities of the charity and its subsidiaries, Shetland Leasing and Property Developments Limited, Shetland Heat Energy and Power Limited, and Viking Energy Limited, on a line by line basis. The income and expenditure of these subsidiaries are also consolidated on a line by line basis where appropriate, with sufficient information being provided in note 6 to these financial statements to ensure that the non-consolidated results of the Trust and its subsidiaries are transparent. As Viking Energy Limited is only 90% owned, the minority interest in that company is shown within the consolidated balance sheet.

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

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

#### ***Fund accounting***

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

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

#### ***Incoming resources***

##### ***Activities for generating funds***

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

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

Turnover in Viking Energy Limited represents miscellaneous income.

##### ***Investment income***

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



## Notes (continued)

### 1 Accounting policies (continued)

#### *Other incoming resources*

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

#### *Donated assets*

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

#### *Resources expended*

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

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

#### *Cost of generating funds*

The cost of generating funds represents fund managers' fees.

#### *Governance costs*

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

#### *Grants*

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

#### *Investments*

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

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

#### *Tangible fixed assets and depreciation*

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

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

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

## Notes (continued)

### 1 Accounting policies (continued)

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

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

#### *Investment properties*

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

#### *Taxation*

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

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

#### *Pension costs*

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

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

#### *Stock*

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

#### *Cash and liquid resources*

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

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

**Notes** *(continued)*

**2 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:

	2011 £000	2010 £000
<b>General funds</b>		
Payments to charitable organisations	5,404	5,686
Schemes	2,731	3,530
Direct schemes	1,770	1,814
One-off projects	434	425
Charitable grants repaid	(20)	(64)
	<hr/>	<hr/>
Total charitable grants	10,319	11,391
Support costs	518	590
Less pension adjustments under FRS 17	(226)	(45)
	<hr/>	<hr/>
Total charitable expenditure – general funds	10,611	11,936
	<hr/>	<hr/>
<b>Expendable endowment</b>		
Depreciation – see note 4	1,326	1,298
	<hr/>	<hr/>
Total resources expended on charitable activities	11,937	13,234
	<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 £518,000 (2010: £545,000) principally represent administration expenses and are all deemed to be attributable to the group's charitable activities. Included within administration expenses is £337,000 (2010: £339,000) in respect of staff costs (see note 3).

*Governance costs*

Governance costs totalling £81,000 (2010: £79,000) comprise the costs associated with the Trust's compliance with charity regulation and good practice. They include £36,000 (2010: £34,000) representing an appropriate apportionment of salary costs together with trustees' expenses (see note 3) and audit fees of £24,000 (2010: £25,000).

	Group and charity	
	Total 2011 £	Total 2010 £
Allocation of staff and support costs, including Trustees' allowance and expenses (see note 4)	36	34
Other costs	21	20
External auditors' remuneration:		
Audit of these financial statements	24	25
Audit of subsidiary undertakings (excluded from charitable governance costs)	31	31
Other services: taxation in relation to subsidiary undertakings	11	11
	<hr/>	<hr/>
<b>Total governance costs</b>	81	79
	<hr/> <hr/>	<hr/> <hr/>

**Notes (continued)**

**3 Staff numbers and costs**

The group had an average of 14 employees during the year (2010: 15). The aggregate payroll cost of these employees was as follows:

	2011 £000	2010 £000
Wages and salaries	481	468
Social security costs	39	37
Pension (credit) costs	(203)	69
	317	574
	317	574

The significant change in pension costs is as a result of a one-off past service credit of £290,000 in respect of changes made to base future pension increases on the Consumer Prices Index (CPI) and not the Retail Prices Index (RPI), following HM Government's announcement in 2010.

Employee costs totalling £241,939 (2010: £228,713) were charged by Shetland Charitable Trust in respect of work performed by its subsidiary company Shetland Heat Energy and Power Limited. Six employees worked wholly or mainly on the subsidiary company's activities during the year.

Two employees (2010: one employee) received emoluments totalling between £60,000 and £69,999. Retirement benefits are accruing to these members 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 (2010: £7,500) from the group during the year. Expenses totalling £2,785 (2009: £3,725) were reimbursed to 11 trustees (2010: 10 trustees) during the year.

**4 Tangible fixed assets**

Group	Land and buildings £000	District heating scheme infrastructure £000	Investment properties £000	Vessel and aircraft £000	Other £000	Total £000
<i>Cost or valuation</i>						
At beginning of year	25,434	16,389	16,986	865	1,121	60,795
Additions	-	456	95	-	3,717	4,268
Disposals	-	-	(344)	-	-	(344)
Revaluations	-	-	(1,586)	-	-	(1,586)
	25,434	16,845	15,151	865	4,838	63,133
	25,434	16,845	15,151	865	4,838	63,133
<i>Depreciation</i>						
At beginning of year	18,670	11,580	-	321	371	30,942
Charge for year	1,085	241	-	34	83	1,443
	19,755	11,821	-	355	454	32,385
	19,755	11,821	-	355	454	32,385
<i>Net book value</i>						
At 31 March 2011	5,679	5,024	15,151	510	4,384	30,748
	5,679	5,024	15,151	510	4,384	30,748
At 31 March 2010	6,764	4,809	16,986	544	750	29,853
	6,764	4,809	16,986	544	750	29,853

**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 mean that it is not possible to establish a meaningful valuation for them in their present use. The trustees therefore capitalised them at original cost, in line with the Trust's accounting policy for tangible fixed assets, which they believed to be a reasonable indication of their value at the date they were donated. The buildings continue to be used as care homes, in furtherance of the Trust's charitable objects, and as such are not held for investment purposes.

The investment properties were valued on an open market value for existing use basis as at 31 March 2011 by professionally qualified valuers. These valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual Practice Statements. The commercial property market in Shetland has not fallen in 2010/11, as Shetland has been largely insulated from the shocks experienced in most of the rest of the UK.

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

	2011	2010
	£000	£000
Plant and machinery, fixtures and fittings held by Shetland Heat Energy and Power Limited	469	303
Assets under construction held by Shetland Leasing and Property Development Limited	3,915	449
	3,915	449

	Land and buildings	Donated Assets	District heating scheme infra-structure	Total
	£000	£000	£000	£000
<i>Cost</i>				
At beginning of year	16,275	9,159	16,389	41,823
Additions	-	-	456	456
	16,275	9,159	16,845	42,279
<i>Depreciation</i>				
At beginning of year	15,205	3,467	11,580	30,252
Charge for year	170	915	241	1,326
	15,375	4,382	11,821	31,578
<i>Net book value</i>				
At 31 March 2011	900	4,777	5,024	10,701
At 31 March 2010	1,070	5,692	4,809	11,571

**Notes (continued)**

**5 Managed funds**

<b>Group and Charity</b>	<b>2011 Market Value £000</b>	<b>2011 Cost £000</b>	<b>2010 Market Value £000</b>	<b>2010 Cost £000</b>
Listed investments:				
British Government securities	23,446	22,662	26,240	25,536
Other UK fixed interest	24,608	23,260	22,224	21,047
	<u>48,054</u>	<u>45,922</u>	<u>48,464</u>	<u>46,583</u>
UK equities	54,897	48,632	59,278	55,135
Overseas equities	54,872	43,717	59,191	50,186
Property units	19,595	18,611	13,585	12,574
	<u>129,364</u>	<u>110,960</u>	<u>132,054</u>	<u>117,895</u>
Total investments	177,418	156,882	180,518	164,478
Cash on deposit and in hand	1,375	1,433	65	(4)
	<u>178,793</u>	<u>158,315</u>	<u>180,583</u>	<u>164,474</u>

	<b>2011 £000</b>	<b>2010 £000</b>
<i>Reconciliation of market value of investments</i>		
Market value at beginning of year	180,583	143,045
Investments purchased	11,781	29,634
Investments sold	(28,933)	(58,679)
Total gains on managed fund investments	14,052	68,298
Movement in investment managers' cash balances	1,310	(1,715)
	<u>178,793</u>	<u>180,583</u>

As at 31 March 2011, the Trust's funds other than programme-related investments are managed by Insight Investment Management, Blackrock Global Investors and Schroders. The split of the portfolio between the investment managers is as follows:

	<b>2011 Market value £000</b>	<b>2011 Cost £000</b>	<b>2010 Market value £000</b>	<b>2010 Cost £000</b>
Insight Investment Management	49,862	47,325	49,078	47,128
Blackrock Global Investors	109,624	92,350	118,475	105,327
Schroders	19,307	18,639	13,030	12,019
	<u>178,793</u>	<u>158,314</u>	<u>180,583</u>	<u>164,474</u>

**Notes** (continued)

**6 Programme-related investments**

	Group		Charity	
	2011 £000	2010 £000	2011 £000	2010 £000
Equity (below)	1,795	1,440	50,780	51,570
Loans (note 7)	836	1,041	836	1,041
	2,631	2,481	51,616	52,611
	2,631	2,481	51,616	52,611

Equity - Group	Shares in subsidiary undertakings £000	Unlisted investments £000	Total £000
<i>Cost</i>			
At beginning of year	7,416	626	8,042
Additions	355	-	355
	7,771	626	8,397
Cost at end of year	7,771	626	8,397
<i>Provisions</i>			
At beginning of year	6,001	601	6,602
Provided in year	-	-	-
	6,001	601	6,602
Provisions at end of year	6,001	601	6,602
<i>Net book value</i>			
At 31 March 2011	1,770	25	1,795
	1,770	25	1,795
At 31 March 2010	1,415	25	1,440
	1,415	25	1,440

Equity - Charity	Shares in subsidiary undertakings £000
<i>Cost</i>	
At beginning of year	72,750
Additions	550
	73,300
Cost at end of year	73,300
<i>Provisions</i>	
At beginning of year	21,180
Provided in year	1,340
	22,520
Provisions at end of year	22,520
<i>Net book value</i>	
At 31 March 2011	50,780
	50,780
At 31 March 2010	51,570
	51,570

**Notes (continued)**

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

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

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

SLAP (Trading) Limited has not been consolidated as the Trustees consider it to be immaterial in aggregate to the Trust itself. The shares in SLAP (Trading) Limited are directly owned by Shetland Leasing and Property Developments Limited. SLAP (Trading) Limited had no assets or liabilities at 31 March 2011. The Directors of SLAP (Trading) Limited applied to Companies House to have that company removed from the register, and this was completed on 20 May 2011.

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

	2011 SLAP £000	2011 SHEAP £000	2011 VEL £000	2011 Total £000	2010 Total £000
<b>Turnover</b>	2,633	1,846	-	4,479	4,180
Cost of sales	(153)	(854)	-	(1,007)	(881)
<b>Gross profit</b>	2,480	992	-	3,472	3,299
Administration expenses	(1,759)	(683)	(123)	(2,565)	(1,821)
Gift aid payment to Shetland Charitable Trust	(2,709)	(339)	-	(3,048)	(4,169)
Other operating income	3	7	-	10	107
<b>Operating (loss) profit</b>	(1,985)	(23)	(123)	(2,131)	(2,584)
Reversal of investment property valuation deficit	81	-	-	81	25
Interest receivable and similar income	599	1	2	602	269
<b>(Loss) on ordinary activities before taxation</b>	(1,305)	(22)	(121)	(1,448)	(2,290)
Tax on (loss) on ordinary activities	(2)	9	-	7	320
<b>(Loss) on ordinary activities after taxation being loss for the financial year</b>	(1,307)	(13)	(121)	(1,441)	(1,970)



## 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:

	2011 Total £000	2010 Total £000
Cost of sales	1,007	881
Administration expenses	2,527	1,821
Reversal of investment property valuation deficit	(81)	(25)
Tax charge (credit) on profit on ordinary activities	(7)	(319)
Minority interest	(50)	(250)
	3,396	2,108
	3,396	2,108

Included within the companies' profit (loss) for the year is a total of £3,048,509 (2009: £4,168,815) paid to the Trust by way of gift aid from SLAP and SHEAP which has been eliminated within the consolidated statement of financial activities.

The assets and liabilities of the subsidiaries were:

	2011 SLAP £000	2011 SHEAP £000	2011 VEL £000	2011 Total £000	2010 Total £000
Tangible fixed assets	19,601	469	1,772	21,842	19,723
Current assets	30,517	654	18	31,189	34,895
Current liabilities	(543)	(457)	(81)	(1,081)	(1,851)
Creditors: amounts due after one year	(1,104)	(40)	-	(1,144)	(1,158)
	48,471	626	1,709	50,806	51,609
Total net assets	48,471	626	1,709	50,806	51,609
Called up share capital	70,000	600	3,000	73,600	73,000
Profit and loss account	(21,592)	26	(1,291)	(22,857)	(21,417)
Revaluation reserve	63	-	-	63	26
	48,471	626	1,709	50,806	51,609
Total reserves	48,471	626	1,709	50,806	51,609

Further details of the subsidiary companies and of their tax charge (credit) for the year are included in their financial statements, copies of which may be obtained from Companies House, 139 Fountainbridge, Edinburgh EH3 9FF.

### 7 Programme-related investments – Loans

	2011 £000	2010 £000
Group		
Agricultural Ten Year Loan Scheme	898	1,107
Provisions for doubtful debts	(62)	(66)
	836	1,041
	836	1,041

**Notes (continued)**

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

	2011	2010
	£000	£000
Charity		
Agricultural Ten Year Loan Scheme	898	1,107
Provisions for doubtful debts	(62)	(66)
	836	1,041
	836	1,041

**8 Debtors**

	Group		Charity	
	2011	2010	2011	2010
	£000	£000	£000	£000
Trade debtors	639	812	1	-
Amounts owing from subsidiary undertakings	-	-	30	4
Prepayments and accrued income	1,761	1,543	1,700	1,279
Other debtors:				
Loan repayments due	1	22	1	18
VAT recoverable	100	11	-	11
Programme-related loans	827	-	827	-
	3,328	2,388	2,559	1,312
	3,328	2,388	2,559	1,312

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

	Group		Charity	
	2011	2010	2011	2010
	£000	£000	£000	£000
Trade creditors	477	941	-	-
Rents in advance	66	66	-	-
Other tax and social security	20	256	4	-
Other creditors and accruals	1,754	1,848	1,256	1,288
	2,317	3,111	1,260	1,288
	2,317	3,111	1,260	1,288

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

Charity	2011	2010
	£000	£000
Loan from subsidiary undertaking	26,000	31,000
	26,000	31,000
	26,000	31,000

The loan of £26,000,000 (2010: £31,000,000) from Shetland Leasing and Property Developments Limited represents an unsecured loan which is repayable between 2013 and 2015. It bears interest at a rate of 1.5% over base rate.

**Notes** *(continued)*

**11 Provisions for liabilities and charges**

	<b>Deferred taxation</b>
<b>Group</b>	<b>£000</b>
At beginning of year	1,147
Credit for the year	74
Effect of increased tax rates	(83)
	1,138
At end of year	1,138

The deferred tax liability arising within the Trust's subsidiary companies at the year end of £1,138,000 (2009: £1,147,000) is analysed as follows:

	2011	2010
	£000	£000
Accelerated capital allowances	243	405
Other timing differences: Gift aid	793	742
Other timing differences	102	-
	1,138	1,147
	1,138	1,147

**12 Expendable endowment**

	<b>Group Total</b>	<b>Charity Total</b>
	£000	£000
At beginning of year	238,182	217,001
Outgoing resources	(1,326)	(2,666)
Gains in the year	7,825	7,825
	244,681	222,160
At end of year	244,681	222,160

**Notes** *(continued)*

**13 Unrestricted income funds**

Group	General funds £000	Trading funds £000	Revaluation reserve £000	Pension reserve £000	Minority interest £000	Total unrestricted income funds £000
At beginning of year	(11,804)	(7,961)	26	(1,599)	250	(21,088)
Net movement in funds	(5,415)	1,024	38	486	50	(3,817)
At end of year	<u>(17,219)</u>	<u>(6,937)</u>	<u>64</u>	<u>(1,113)</u>	<u>300</u>	<u>(24,905)</u>

Charity	General funds £000	Pension reserve £000	Total unrestricted income funds £000
At beginning of year	1,653	(1,599)	54
Net incoming resources before other recognised gains and losses	(2,724)	-	(2,724)
Actuarial gains	-	260	260
Transfer to (from) pension reserve	(226)	226	-
At end of year	<u>(1,297)</u>	<u>(1,113)</u>	<u>(2,410)</u>

The deficit balance on the trading funds of £6,937,000 (2010: £11,804,000) represents the accumulated results of Shetland Leasing and Property Developments Limited and Shetland Heat Energy and Power Limited, adjusted to remove the interest payable by the charity to those companies, and also the net gift aid payments made to the charity by those companies. The deficit balance on the consolidated general funds excluding pension reserve of £17,219,000 (2010: £11,804,000) represents the balance on the Trust's own general funds adjusted for those interest and gift aid payments. The balance on the Trust's own unrestricted funds at the year end, excluding pension deficit of £1,113,000 (2010: £1,599,000), was a deficit of £1,297,000 (2010: surplus of £1,653,000).

**14 Pension scheme**

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

The latest full actuarial valuation was carried out at 31 March 2008 and was updated for FRS 17 purposes to 31 March 2011 by a qualified independent actuary.

	2011 £000	2010 £000
Present value of funded defined benefit obligations	(2,409)	(2,726)
Fair value of plan assets	1,443	1,286
	<u>(966)</u>	<u>(1,440)</u>
Present value of unfunded defined benefit obligations	(147)	(159)
Net (liability)	<u>(1,113)</u>	<u>(1,599)</u>

**Notes** *(continued)*

**14 Pension scheme** *(continued)*

Movements in present value of defined benefit obligation:

	2011 £000	2010 £000
At 1 April	2,885	1,628
Current service cost	93	50
Interest cost	150	114
Actuarial losses / (gains)	(272)	1,092
Past service cost	(290)	12
Contributions by members	33	31
Benefits paid	(43)	(42)
	2,556	2,885
At 31 March	2,556	2,885

Movements in fair value of plan assets:

	2011 £000	2010 £000
At 1 April	1,286	866
Expected return on plan assets	96	59
Actuarial gains / (losses)	(12)	300
Contributions by employer	83	72
Contributions by members	33	31
Benefits paid	(43)	(42)
	1,443	1,286
At 31 March	1,443	1,286

Income recognised in the statement of financial activities:

	2011 £000	2010 £000
Current service cost	(93)	(50)
Interest on defined benefit pension plan obligation	(150)	(114)
Expected return on defined benefit pension plan assets	96	59
Past service cost	290	(12)
	143	(117)
Total	143	(117)

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

	2011 £000	2010 £000
Charitable activities – support costs	143	(117)
	143	(117)

The total amount recognised in the other recognised gains and losses section of the statement of financial activities is a gain £260,000 (2010: loss of £792,000).

**Notes** *(continued)*

**14 Pension scheme** *(continued)*

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

	2011 Fair value £000	2010 Fair value £000
Equities	1,154	1,029
Corporate bonds	130	103
Property	101	90
Cash	58	64
	<u>1,443</u>	<u>1,286</u>
Actual return on plan assets	<u>85</u>	<u>360</u>

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

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

	2011 %	2010 %
Discount rate	5.5	5.5
Expected rate of return on plan assets	7.0	7.3
Future salary increases	5.1	5.3
Inflation / pension increase rate	2.8	3.8

In valuing the liabilities of the pension fund at 31 March 2011, mortality assumptions have been made as indicated below. The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

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

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

**History of plans**

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

*Balance sheet*

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Present value of scheme liabilities	(2,556)	(2,885)	(1,628)	(1,578)	(1,846)
Fair value of scheme assets	1,443	1,286	866	1,254	1,303
	<u>(1,113)</u>	<u>(1,599)</u>	<u>(762)</u>	<u>(324)</u>	<u>(543)</u>

**Notes** *(continued)*

**14 Pension scheme** *(continued)*

*Experience adjustments*

	2011 £000/%	2010 £000/%	2009 £000/%	2008 £000/%	2007 £000/%
Experience adjustments on scheme liabilities [as a percentage of scheme liabilities]	(7)/(0.3)	(7) / (0.2)	(86) / 5.3	3 / 0.2	(35) / (1.9)
Experience adjustments on scheme assets [as a percentage of scheme assets]	(12)/(0.8)	300 / 23.3	(518)/(59.8)	(195)/(15.6)	12/0.9

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

**15 Related parties**

In the normal course of business, some of the trustees 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.

