

**Shetland Charitable Trust**

Trustees' report and consolidated  
financial statements

Charity number SC027025

31 March 2012

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## Chair's introduction

As the new Chair of Shetland Charitable Trust, I would like to record my pride and pleasure in taking the job. I have only been in post for a little over four months as I write this, but it has been a very hectic period! The inbox on my arrival at the Trust offices had two very big items in it.

The first one was the Viking Energy investment decision. This had been delayed for a variety of reasons, and it could not wait; a big job for a body with over 50% new members. It is a matter of pride that trustees came up to the mark, and made a decision in an extremely professional manner.

Now we are moving on to dealing with reorganising the Trust to comply with the appropriate legislation, and in conformation with OSCR's strictures. We have a great deal of work by the outgoing Trustees on this one, and I am confident that we will arrive at a conclusion which we will defend against all comers.

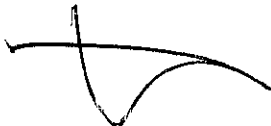
The Trust has been a vital part of Shetland's social infrastructure from its earliest days. It will continue to be in the long term, and given the likely long term decline in public budgets country wide, ever more so. We are working to ensure that.

For me, a part of the satisfaction is in the welcome I got when I took up the post. The Trust has first rate staff, entirely dedicated to the Trust. I find their support invaluable, and thank them for it. I would also like to give credit to management and to outgoing Trustees for getting expenditure down to a more sustainable level. I fear that more will have to be done in what seems likely to be a difficult coming period, but I have confidence in our capacity to meet the challenge.

Finally, I would like to offer my gratitude and thanks to the outgoing Chair. Bill Manson has worked hard and faithfully to steer the Trust over what was a time of turbulence and radical change. We would not be in the position we are in today were it not for his efforts.

Drew Ratter  
Chair

13 September 2012



## 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 Andrew Ratter, Chair (appointed 10 May 2012)  
Jonathan Witney Garriock Wills, Sundside, Bressay Vice Chair (resigned 15 December 2011, re-appointed 9 May 2012)  
Leslie Angus, 12 Lovers Loan, Lerwick (resigned 2 May 2012)  
Laura Florence Baisley, 2 Effstigarth, Herra, Mid Yell (resigned 2 May 2012)  
Malcolm John Bell, Edgcott, 34 St Olaf Street, Lerwick (appointed 10 May 2012)  
James Budge, Bigton Farm, Bigton (resigned 2 May 2012)  
Mark Robert Burgess, Mayburn Cottage, Ladysmith Road, Scalloway (appointed 21 May 2012)  
Peter James Campbell, 8 Sandyloch Drive, Lerwick (appointed 10 May 2012)  
Gary Kenneth Cleaver, 1 Hillsgarth Baltasound, Unst (appointed 15 May 2012)  
Alexander Jamieson Cluness, 5 Twageos Road, Lerwick (resigned 15 December 2011)  
Alastair Thomas James Cooper, Linga, Mossbank  
Steven William Coutts, Glenlea, Weisdale (appointed 14 May 2012)  
Adam Thomas Doull, Islesburgh, Sullom (resigned 2 May 2012)  
Allison George Leslie Duncan, 1 Hillock, Dunrossness  
William Fox, Brennek, Quarff (appointed 21 May 2012, resigned 3 July 2012)  
Elizabeth Laureen Fullerton, Valdur, Bridge End, Burra (resigned 2 May 2012)  
Florence Barbara Grains, Hoove, Whiteness (resigned 2 May 2012)  
Iris Jean Hawkins, 48 Sycamore Avenue, Scalloway (resigned 30 September 2011)  
Robert Simpson Henderson, Maraberg, Cullivoe, Yell  
James Herculeson Henry, 17 Murrayston Lerwick (resigned 2 May 2012)  
Andrew James Hughson, Brunthamarsland House, Girlsta (resigned 2 May 2012)  
Robert Walter Hunter, Millburn, Bridge End, Burra (appointed 5 December 2011)  
Andrea Isobel Manson, Greystones, Brae (appointed 11 May 2012)  
William Henry Manson, Mangaster, Sullom (resigned 2 May 2012)  
Caroline Helen Janette Miller, Heogan, Bressay (resigned 2 May 2012)  
Richard Chadsey Nickerson, Ringan, Bigton (resigned 2 May 2012)  
Valerie Margaret Lillias Nicolson, Midgarth, Twageos Road, Lerwick  
Frank Andrew Robertson, Columbus, Selivoe, Bridge of Walls  
Gary Robinson, 17 Burnside, Lerwick  
David Alexander Sandison, Bonhoga 7 Castle Street, Scalloway (appointed 5 January 2012)  
Joseph Gilbert Simpson, Brucefield, Symbister, Whalsay (resigned 2 May 2012)  
John Hamilton Scott, Keldabister Banks, Bressay (resigned 30 November 2011)  
Cecil Laing Smith, 1 Westerloch Crescent, Lerwick (resigned 28 June 2012)  
Malcolm George Smith, Breaslete, Sandwick (appointed 9 May 2012)  
Theodore George Cameron Smith, Stenquoy, Wormadale, Whiteness (appointed 10 May 2012)  
Michael William Stout, Kirkabister, Bressay, (appointed 21 May 2012)  
Amanda Joan Westlake, Maya Dacha, 41 Burgh Road, Lerwick (appointed 9 May 2012)  
Allan Sinclair Wishart, Seafeld Lodge, Lower Sound, Lerwick (appointed 11 May 2012)  
Vaila Wishart, Eden Cottage, Setter, Burra (appointed 11 May 2012)

## Trustees' Report *(continued)*

<b>Chief Executive (formerly General Manager)</b>	Dr Ann Black		
<b>Financial Controller</b>	Jeff Goddard CA, PhD, BSc		
<b>Bankers</b>	Bank of Scotland 117 Commercial Street Lerwick ZE1 0DL		
<b>Auditor</b>	KPMG LLP 37 Albyn Place Aberdeen AB10 1JB		
<b>Solicitors - Governance and Charity Law</b>	Turcan Connell Princes Exchange 1 Earl Grey Street Edinburgh EH3 9EE	<b>Commercial</b>	Maclay Murray and Spens Quartermile One 15 Lauriston Place Edinburgh EH3 9EP
<b>Investment Managers</b>	Insight Investment Management (Global) Limited 160 Queen Victoria Street, London, EC4V 4LA		
	Blackrock Global Investors Limited Drapers Gardens 12 Throgmorton Avenue London EC2N 2DL		
	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 up to twenty four Trustees, 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 *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 guidance from OSCR.

At a meeting on 15 December 2011, Trustees agreed to change the governance arrangements of the Trust, in particular the composition of the Trustee body. A Reorganisation Scheme has been submitted to OSCR, and has been accepted. The Scheme Schedule proposes a new body of fifteen Trustees, each of whom must be principally resident in the Shetland Islands. The Trustee body will be made up of eight appointed Trustees recommended by a selection panel and appointed by the Trustees, and seven Councillor Trustees who are elected members of, and appointed by, Shetland Islands Council.

#### **Management and Administration**

The Trust is managed and administered by a team of eight directly employed staff. The Chief Executive'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. This post has recently been re-designated from General Manager, to reflect the increasingly strategic nature of the role. 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 through the Trust's website, [www.shetlandcharitabletrust.co.uk](http://www.shetlandcharitabletrust.co.uk).

#### **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 four 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 (resigned 15 December 2011) Adam Doull Allison Duncan Iris Hawkins (resigned 28 September 2011) Robert Henderson Caroline Miller
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<b>Shetland Heat Energy and Power Limited (SHEAP)</b>	Gary Robinson – Chair Richard Nickerson – Vice Chair Allison Duncan Robert Henderson James Henry
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<b>C. T. Shetland (T. M.) Limited (non-trading)</b>	William Manson - Chair Florence Grains Iris Hawkins (resigned 28 September 2011) James Henry
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<b>Viking Energy Limited</b>	William Manson – Chair Alastair Cooper Caroline Miller
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### 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. Both were in the area of conflict of interest and compliance with charity law, an area which is under constant review. Further reviews have been carried out at officer level, and no significant changes have been identified to the level of risk to which the Trust is exposed.

### Disclosure of information to auditor

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 auditor is 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 auditor is 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.

In the three year period ending on 31 March 2012, Trustees agreed that expenditure needed to be reduced by a further £1.2 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 reached their target a year early. This completed 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". The outturn for 2011/12 is also below the £11 million target.

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 agreed to set budgets of no more than £11 million for each of the next three years, 2012/13, 2013/14 and 2014/15. Many of the organisations funded have been granted three year funding packages, comprising "standstill" grants for the three years to 31 March 2015.

### 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 2012, the Trust provided grant assistance to the following organisations towards the cost of providing a range of social, leisure, cultural, heritage and environmental activities:

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

## Trustees' Report *(continued)*

The Trust allows 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.

The Trust has worked with the organisations funded to develop a system of service performance reporting. Trustees considered a progress report on service performance in November 2011, 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
- Rural Care Model
- 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 addition to these routine maintenance costs, the Trust has agreed to pay for the replacement of the roofs on the swimming pools at Sandwick and Scalloway. Sandwick has been replaced this year, and Scalloway is to be replaced in 2012/13.

When the Mareel project was planned, the Trust, although not funding the capital costs, agreed to make a one-off grant of up to £100,000 to assist with mobilisation costs. This grant was claimed in 2011/12.

The Trust also made a one-off grant of £288,000 to COPE, to assist with their running costs. This grant was funded from income received from the Shetland Development Trust, so is not counted against the £11 million target for the year.

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 the previous year.

### Financial Performance

In 2008/09, Trustees set a three year financial policy for the years up to 31 March 2012, which required Trustees to reduce expenditure by £1.2 million to £11 million per annum by 31 March 2012. This policy was set against a background of spectacular falls in share values in 2007 and 2008. Fortunately there was a strong bounce back in 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 and 2011/12 have been quieter years, with overall investment returns being around £13.9 million (about 6%) and £9.3 million (about 4%), respectively. The Trust's target is to be self-sustaining with net investable assets of £220 million (in March 2015 money). Despite the modest returns from the world's markets, the good performance of the local investments meant that at 31 March 2012, the Trust was close to the target.

## Trustees' Report *(continued)*

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 2011/12, with SLAP performing particularly well. The rentals from the land at the Sullom Voe terminal also made a useful contribution.

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 2011/12 partly due to 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. Furthermore, the Trust staff has gradually reduced from 11 in 2005/06 to 7.4 full time equivalents in 2011/12.

### *Charitable Expenditure* Year to 31 March 2012

	Original Budget £	Vire/ enhance £	Current budget £	Actual spend to 31 March £	year to date variance £	2011 spend £
<b>Trusts over £0.5m</b>						
Shetland Amenity Trust	1,052,728	-	1,052,728	1,052,728	-	1,052,728
Shetland Arts Development Agency	696,038	36,180	732,218	732,218	-	696,038
Shetland Recreational Trust	2,583,392	-	2,583,392	2,583,392	-	2,518,550
<b>Other Charitable Organisations</b>						
Disability Shetland Recreation Club	12,641	-	12,641	12,641	-	12,641
The Swan Trust	44,650	-	44,650	44,650	-	48,900
VAS - New Shetlander	670	-	670	670	-	670
Shetland Churches Council Trust	54,075	-	54,075	54,075	-	54,075
Shetland Youth Information Service	188,840	-	188,840	188,840	-	188,840
Shetland Befriending Scheme	54,418	-	54,418	54,418	-	54,418
Citizens Advice Bureau	147,383	-	147,383	147,383	-	132,265
COPE Limited	154,967	-	154,967	154,967	-	329,967
Couple Counselling Shetland	12,000	-	12,000	12,000	-	12,000
Shetland Link Up	47,994	-	47,994	47,994	-	47,994
Voluntary Action Shetland	144,367	-	144,367	144,367	-	144,367
VAS ICT replacement	-	-	-	-	-	19,750
Festival Grants	30,000	-	30,000	30,000	-	30,000
Local Charitable Organisations	14,000	-	14,000	7,552	6,448	12,572
Women's Royal Voluntary Service	47,622	-	47,622	47,622	-	47,622
Alternative Psychological Therapies	-	26,212	26,212	-	26,212	641
<b>Sub Total Organisations</b>	<b>5,285,785</b>	<b>62,392</b>	<b>5,348,177</b>	<b>5,315,517</b>	<b>32,660</b>	<b>5,404,038</b>
<b>Schemes</b>						
Community Development Grants	14,272	(1,250)	13,022	10,539	2,483	12,826
Community Support Grants	72,321	1,250	73,571	73,571	-	73,180
Arts Grant Scheme	35,000	-	35,000	34,380	620	26,715
Sheltered Housing Heating	25,500	-	25,500	25,500	-	25,500
Senior Citizens Clubs	23,000	-	23,000	14,974	8,026	17,809
Support to Rural Care Model	2,491,000	-	2,491,000	2,491,000	-	2,491,000
Social Assistance Grants	35,000	-	35,000	14,588	20,412	25,177
Buses for Elderly and Disabled	49,980	-	49,980	49,980	-	51,960
Supported Employment	8,000	-	8,000	7,469	531	7,179
<b>Sub Total Schemes</b>	<b>2,754,073</b>	<b>-</b>	<b>2,754,073</b>	<b>2,722,001</b>	<b>32,072</b>	<b>2,731,345</b>
<b>Direct Schemes</b>						
Springfield	1,500	-	1,500	2,085	(585)	1,467
Christmas grant Scheme	487,000	-	487,000	453,768	33,232	482,041
Planned Maintenance	1,605,428	-	1,605,428	1,604,605	823	1,285,920
<b>Sub Total Direct Schemes</b>	<b>2,093,928</b>	<b>-</b>	<b>2,093,928</b>	<b>2,060,458</b>	<b>33,470</b>	<b>1,769,428</b>

## Trustees' Report *(continued)*

### One-Off Projects

Fire Upgrades in Rural Care Homes	-	-	-	-	-	184,476
CLAN 123	-	-	-	-	-	250,000
Sandwick Swimming Pool Roof	-	200,000	200,000	170,634	-	-
COPE Limited	-	288,000*	288,000*	288,000*	-	-
Shetland Arts Development Agency	100,000	-	100,000	100,000	-	-
Joint Legal advice	20,000	12,020	7,980	7,980	-	-
<b>Sub Total One-Off Projects</b>	<b>120,000</b>	<b>475,980</b>	<b>595,980</b>	<b>566,614</b>	<b>29,366</b>	<b>434,476</b>
Surplus Grants Refunded	-	-	-	(38,735)	38,735	-20,034
<b>Sub-total charitable expenditure</b>	<b>10,253,786</b>	<b>538,372</b>	<b>10,792,158</b>	<b>10,625,855</b>	<b>166,303</b>	<b>10,319,254</b>
Trust Administration, including governance costs	539,760	12,020	551,780	567,567	(15,787)	518,518
<b>Total</b>	<b>10,793,546</b>	<b>550,392</b>	<b>11,343,938</b>	<b>11,193,422</b>	<b>150,516</b>	<b>10,837,772</b>

\* Funded from income received from Shetland Development Trust, so is not counted against the £11 million target

Total charitable expenditure and administration costs are shown before adjustment for pension adjustments under FRS 17 totalling £36,000, and reallocation of governance costs, as detailed in Note 2 to the financial statements.

## Trustees' Report *(continued)*

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

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

The Trust relies chiefly on funds generated by investments on the world's markets. Around £6.1 million was generated in 2011/12. In addition, in 2011/12, around £3.2 million income was derived from investments in Shetland, valued at around £35 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 2012) of the Trust's reserves that are invested to generate income (ie not the 'Donated Properties') is around £213 million, which covers current levels of expenditure for around 19 years.

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

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

#### **Investment Performance**

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

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

#### Stock Exchanges

As at 31 March 2012, three fund managers managed the Trust's Stock Exchanges portfolio. Blackrock Global Investors (formerly Barclays Global Investors) manage around £101 million invested in equities (shares), Insight Investment manage around £52 million in bonds, and Schroders Property Managers manage around £21 million in commercial property.

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.

## Trustees' Report *(continued)*

### 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 2011/12. The Board of Directors resolved to make a gift aid payment of £3.1 million to the Trust in the financial year 2011/12. This mechanism means that neither body pays tax on the profits.

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 1,100 customers receiving heat. The Board of Directors resolved to make a gift aid payment of £339,000 to the Trust in the financial year 2011/12.

Viking Energy Limited is a 100% owned subsidiary of the Trust. The Trust has invested £3.42 million at 31 March 2012. It is presently investigating a very large wind farm project in central Shetland. Planning consent was granted by the Scottish Ministers for a 103 turbine site windfarm on 4 April 2012.

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 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 was 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.

## Trustees' Report *(continued)*

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

#### **Trustees**

On 3 July 2012 OSCR approved the Reorganisation Scheme referred to in Section 2. Work will be ongoing to implement the Scheme.

#### **Financial Position**

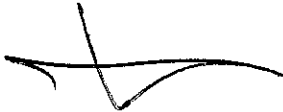
During the course of the three year plan covering the period until 31 March 2012, Trustees have achieved their objective of financial self-sustainability, but will be monitoring their income and expenditure very closely going ahead to ensure that the Trust's resources remain in balance.

#### **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.

**Drew Ratter**  
*Chair*

13 September 2012





## **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 2012 set out on pages 17 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 15, 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 2012 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

19 September 2012

## Consolidated statement of financial activities

for the year ended 31 March 2012

	Note	Unrestricted funds		2012	2011
		General funds £000	Expendable endowment £000	Total £000	Total £000
<b>Incoming resources</b>					
<i>Incoming resources from generated funds</i>					
Activities for generating funds – trading subsidiaries	6	4,535	-	4,535	4,479
Investment income		4,790	-	4,790	4,824
<i>Other incoming resources</i>					
Rental income		1,220	-	1,220	1,287
Other income		73	-	73	66
Total incoming resources		10,618	-	10,618	10,656
<b>Resources expended</b>					
<i>Cost of generating funds</i>					
Expenditure of trading subsidiaries	6	(2,274)	-	(2,274)	(3,396)
Investment management costs		(701)	-	(701)	(645)
<i>Charitable activities</i>	2	(11,133)	(1,324)	(12,457)	(11,937)
<i>Governance costs</i>	2	(79)	-	(79)	(81)
Total resources expended		(14,187)	(1,324)	(15,511)	(16,059)
Net (outgoing) resources before transfers		(3,569)	(1,324)	(4,893)	(5,403)
<b>Transfers</b>					
Gross transfers between funds	12, 13	36,375	(36,375)	-	-
Net incoming (outgoing) resources before other recognised gains and losses		32,806	(37,699)	(4,893)	(5,403)
<b>Other recognised gains and losses</b>					
Gains on managed fund investments	5	-	2,140	2,140	7,825
Other losses on investments		(168)	-	(168)	-
Actuarial (losses) gains in defined benefit pension scheme	14	(94)	-	(94)	260
Unrealised gain on revaluation of investment properties		117	-	117	-
<b>Net movement in funds</b>		32,661	(35,559)	(2,898)	2,682
Fund balances brought forward		(24,905)	244,681	219,776	217,094
<b>Fund balances carried forward</b>		7,756	209,122	216,878	219,776

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 2012

	Note	Unrestricted funds		2012 Total £000	2011 Total £000
		General funds £000	Expendable endowment £000		
<b>Incoming resources</b>					
<i>Incoming resources from generated funds</i>					
Investment income		4,790	-	4,790	4,805
Gift aid receipts from subsidiary undertakings	6	3,481	-	3,481	3,048
<i>Other incoming resources</i>					
Rental income		1,220	-	1,220	1,287
Other income		41	-	41	56
Total incoming resources		9,532	-	9,532	9,196
<b>Resources expended</b>					
<i>Cost of generating funds</i>					
Investment management costs		(701)	-	(701)	(645)
Capital reduction in investment		-	(35,000)	(35,000)	-
Provision released / (made) against equity investment	6	-	21,146	21,146	(1,340)
<i>Charitable activities</i>	2	(11,133)	(1,324)	(12,457)	(11,937)
<i>Governance costs</i>	2	(79)	-	(79)	(81)
<i>Other resources expended</i>					
Interest payable on loan from subsidiary		(525)	-	(525)	(583)
Total resources expended		(12,438)	(15,178)	(27,616)	(14,586)
Net (outgoing) resources before other recognised gains and losses		(2,906)	(15,178)	(18,084)	(5,390)
<b>Other recognised gains and losses</b>					
Gains on managed fund investments	5	-	2,140	2,140	7,825
Actuarial (losses)/gains in defined benefit pension scheme	14	(94)	-	(94)	260
<b>Net movement in funds</b>		(3,000)	(13,038)	(16,038)	2,695
Total funds brought forward		(2,410)	222,160	219,750	217,055
<b>Fund balances carried forward</b>		(5,410)	209,122	203,712	219,750

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 2012

	Note	2012 £000	2012 £000	2011 £000	2011 £000
<b>Fixed assets</b>					
Tangible assets	4		33,198		30,748
Investments:					
Investments	5	174,097		178,793	
Programme-related investments	6, 7	2,917		2,631	
			<u>177,014</u>		<u>181,424</u>
<b>Total fixed assets</b>			<b>210,212</b>		<b>212,172</b>
<b>Current assets</b>					
Stocks		53		42	
Debtors	8	2,797		3,328	
Cash at bank and in hand		8,254		8,802	
			<u>11,104</u>	<u>12,172</u>	
<b>Total current assets</b>		<b>11,104</b>		<b>12,172</b>	
<b>Creditors: amounts falling due within one year</b>	9	<b>(2,191)</b>		<b>(2,317)</b>	
			<u>8,913</u>	<u>9,855</u>	
<b>Net current assets</b>			<b>8,913</b>		<b>9,855</b>
<b>Total assets less current liabilities</b>			<b>219,125</b>		<b>222,027</b>
<b>Provisions for liabilities and charges</b>	11		<b>(1,004)</b>		<b>(1,138)</b>
			<u>218,121</u>		<u>220,889</u>
<b>Net assets excluding pension liability</b>			<b>218,121</b>		<b>220,889</b>
Pension liability	14		<b>(1,243)</b>		<b>(1,113)</b>
			<u>216,878</u>		<u>219,776</u>
<b>Net assets including pension liability</b>			<b>216,878</b>		<b>219,776</b>
<b>Represented by:</b>					
Expendable endowment	12		209,122		244,681
Unrestricted income funds:	13				
General funds			(4,167)		(17,219)
Trading funds			12,985		(6,937)
Revaluation reserve			181		64
Minority interest			-		300
			<u>8,999</u>		<u>(23,792)</u>
Unrestricted income funds excluding pension reserve			<b>8,999</b>		<b>(23,792)</b>
Pension reserve	13		<b>(1,243)</b>		<b>(1,113)</b>
			<u>7,756</u>		<u>(24,905)</u>
<b>Total unrestricted income funds</b>			<b>7,756</b>		<b>(24,905)</b>
<b>Total group funds</b>			<b>216,878</b>		<b>219,776</b>

These financial statements were approved by the trustees on 13 September 2012 and were signed on their behalf by:

**W A Ratter**  
Chairman

**J W G Wills**  
Vice-Chairman

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

**Trust balance sheet**  
*at 31 March 2012*

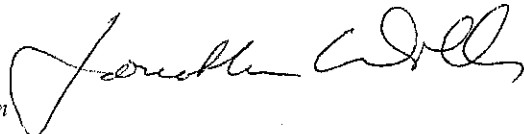
	<i>Note</i>	2012 £000	2012 £000	2011 £000	2011 £000
<b>Fixed assets</b>					
Tangible assets	4		9,549		10,701
Investments:					
Investments	5	174,097		178,793	
Programme-related investments	6, 7	38,306		51,616	
			<u>212,403</u>		<u>230,409</u>
<b>Total fixed assets</b>			<u>221,952</u>		<u>241,110</u>
<b>Current assets</b>					
Debtors	8	2,014		2,559	
Cash at bank and in hand		4,075		4,454	
			<u>6,089</u>	<u>7,013</u>	
<b>Creditors: amounts falling due within one year</b>	9	(586)		(1,260)	
<b>Net current assets</b>			<u>5,503</u>		<u>5,753</u>
<b>Total assets less current liabilities</b>			<u>227,455</u>		<u>246,863</u>
<b>Creditors: amounts falling due outwith one year</b>	10		(22,500)		(26,000)
<b>Net assets excluding pension liability</b>			<u>204,955</u>		<u>220,863</u>
Pension liability	14		(1,243)		(1,113)
<b>Net assets including pension liability</b>			<u>203,712</u>		<u>219,750</u>
<b>Represented by:</b>					
Expendable endowment	12		209,122		222,160
Unrestricted income funds					
General funds	13		(4,167)		(1,297)
Pension reserve	13		(1,243)		(1,113)
			<u>(5,410)</u>		<u>(2,410)</u>
<b>Total unrestricted income funds</b>			<u>203,712</u>		<u>219,750</u>

These financial statements were approved by the trustees on 13 September 2012 and were signed on their behalf by:

**W A Ratter**  
Chairman



**J W G Wills**  
Vice-Chairman



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

## Consolidated cash flow statement

for the year ended 31 March 2012

	2012 £000	2012 £000	2011 £000	2011 £000
<b>Net cash outflow from operating activities</b>		(7,846)		(10,288)
<b>Returns on investment and servicing of finance</b>				
Investment income and interest received		4,790		4,805
<b>Capital expenditure and financial investment</b>				
Purchase of managed funds investments	(119,487)		(11,781)	
Purchase of tangible fixed assets	(4,184)		(4,268)	
Purchase of shares within joint venture	(720)		(455)	
Sale of managed funds investments	127,250		28,933	
Loans repaid	-		205	
	<hr/>		<hr/>	
<b>Net cash inflow from capital expenditure and financial investment</b>		2,859		12,634
<b>Management of liquid resources</b>				
Net movement in cash flows attributable to managed fund investments		1,477		(4,522)
Funds (deposited) withdrawn from short term deposit (net)		(1,828)		(1,437)
		<hr/>		<hr/>
<b>(Decrease) / increase in cash in the year</b>		(548)		1,192
		<hr/> <hr/>		<hr/> <hr/>

**Notes to the consolidated cash flow statement**  
*for the year ended 31 March 2012*

<b>Reconciliation of net (outgoing) resources to net cash outflow from operating activities</b>	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Net (outgoing) resources	(4,893)	(5,403)
Investment income and interest receivable	(4,790)	(4,805)
Depreciation and impairment of tangible fixed assets	1,442	1,443
Movement in pension liability, excluding actuarial gains and losses	(36)	226
Increase in stock	(11)	(6)
Decrease (increase) in debtors	702	(940)
Decrease in creditors	(126)	(794)
Decrease in provisions	(134)	(9)
Increase in provision for programme related investments	-	-
	<hr/>	<hr/>
<b>Net cash outflow from operating activities</b>	<b>(7,846)</b>	<b>(10,288)</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Reconciliation of net cash flow to movement in net funds</b>	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Increase (decrease) in cash in the year	(548)	1,192
Cash outflow (inflow) from increase (decrease) in liquid resources	1,477	1,437
	<hr/>	<hr/>
Change in net funds resulting from cash flows	929	2,629
Net funds at the start of the year	10,235	7,606
	<hr/>	<hr/>
Net funds at the end of the year	11,164	10,235
	<hr/> <hr/>	<hr/> <hr/>
<b>Net funds comprise:</b>		
Cash in hand held by investment managers	2,910	1,433
Cash at bank and in hand	8,254	8,802
	<hr/>	<hr/>
	<b>11,164</b>	<b>10,235</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. During the year, the Trust acquired the 10% minority interest shareholding in Viking Energy Limited. The minority interest in that company is shown in the comparative consolidated balance sheet.

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 hot water for 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 2012, 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 2011 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 2011 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:

	2012 £000	2011 £000
<b>General funds</b>		
Payments to charitable organisations	5,316	5,404
Schemes	2,722	2,731
Direct schemes	2,060	1,770
One-off projects	567	434
Charitable grants repaid	(39)	(20)
	10,626	10,319
Total charitable grants	10,626	10,319
Support costs, excluding governance costs (below)	471	518
Pension adjustments under FRS 17	36	(226)
	11,133	10,611
<b>Expendable endowment</b>		
Depreciation – see note 4	1,324	1,326
	12,457	11,937
Total resources expended on charitable activities	12,457	11,937

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 £471,000 (2011: £518,000) principally represent administration expenses and are all deemed to be attributable to the group's charitable activities. Included within administration expenses is £595,000 (2011: £317,000) in respect of staff costs (see note 3), of which £234,438 (2011: £241,939) was charged to subsidiaries.

*Governance costs*

Governance costs totalling £79,000 (2011: £81,000) comprise the costs associated with the Trust's compliance with charity regulation and good practice. They include £38,000 (2011: £36,000) representing an appropriate apportionment of salary costs, together with trustees' expenses (see note 3), and audit fees of £24,000 (2011: £24,000).

	Group and charity	
	Total 2012 £	Total 2011 £
Allocation of staff and support costs, including Trustees' allowance and expenses (see note 3)	38	36
Other costs	17	21
External auditor's remuneration:		
Audit of these financial statements	24	24
Audit of subsidiary undertakings (excluded from charitable governance costs)	31	31
Other services: taxation in relation to subsidiary undertakings	11	11
	79	81
<b>Total governance costs</b>	79	81

## Notes (continued)

### 3 Staff numbers and costs

The group had an average of 14 employees during the year (2011: 14). The aggregate payroll cost of these employees was as follows:

	2012 £000	2011 £000
Wages and salaries	465	481
Social security costs	41	39
Pension costs / (credit)	89	(203)
	595	317
	595	317

The significant change in pension costs is as a result of a one-off past service credit to the 2010-11 balance 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 2011.

Employee costs totalling £234,438 (2011: £241,939) 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 (2011: two employees) received emoluments each 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 £7,490 (2011: £7,500) from the Trust and its group during the year. Expenses totalling £4,132 (2011: £2,785) were reimbursed to 12 trustees (2011: 11 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	16,845	15,151	865	4,838	63,133
Additions	-	172	2	-	4,010	4,184
Disposals	-	-	(38)	-	-	(38)
Revaluations	-	-	(252)	-	-	(252)
	25,434	17,017	14,863	865	8,848	67,027
	25,434	17,017	14,863	865	8,848	67,027
<i>Depreciation</i>						
At beginning of year	19,757	11,821	-	355	454	32,387
Charge for year	1,064	260	-	33	85	1,442
	20,821	12,081	-	388	539	33,829
	20,821	12,081	-	388	539	33,829
<i>Net book value</i>						
At 31 March 2012	4,613	4,936	14,863	477	8,309	33,198
	4,613	4,936	14,863	477	8,309	33,198
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

## 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, and updated on a directors' valuation basis to 31 March 2012. 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 2011/12, 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:

	2012 £000	2011 £000
Plant and machinery, fixtures and fittings held by Shetland Heat Energy and Power Limited	450	469
Assets under construction held by Shetland Leasing and Property Development Limited	<b>7,857</b>	<b>3,915</b>

	Land and buildings £000	Donated Assets £000	District heating scheme infrastructure £000	Total £000
<b>Charity</b>				
<i>Cost</i>				
At beginning of year	16,275	9,159	16,845	42,279
Additions	-	-	172	172
At end of year	<u>16,275</u>	<u>9,159</u>	<u>17,017</u>	<u>42,451</u>
<i>Depreciation</i>				
At beginning of year	15,375	4,382	11,821	31,578
Charge for year	150	914	260	1,324
At end of year	<u>15,525</u>	<u>5,296</u>	<u>12,081</u>	<u>32,902</u>
<i>Net book value</i>				
At 31 March 2012	<u><b>750</b></u>	<u><b>3,863</b></u>	<u><b>4,936</b></u>	<u><b>9,549</b></u>
At 31 March 2011	<u>900</u>	<u>4,777</u>	<u>5,024</u>	<u>10,701</u>

**Notes (continued)**

**5 Managed funds**

<b>Group and Charity</b>	<b>2012 Market Value £000</b>	<b>2012 Cost £000</b>	<b>2011 Market Value £000</b>	<b>2011 Cost £000</b>
Listed investments:				
UK Government securities	19,572	18,595	23,446	22,662
Other UK fixed interest	19,455	18,718	24,608	23,260
Other Overseas fixed interest	10,710	8,545	-	-
	<u>49,737</u>	<u>45,858</u>	<u>48,054</u>	<u>45,922</u>
UK equities	50,119	45,251	54,897	48,632
Overseas equities	51,061	42,081	54,872	43,717
Property units	20,148	19,261	19,595	18,611
	<u>121,328</u>	<u>106,593</u>	<u>129,364</u>	<u>110,960</u>
Total investments	171,065	152,451	177,418	156,882
Cash on deposit and in hand	3,031	2,910	1,375	1,433
	<u>174,097</u>	<u>155,362</u>	<u>178,793</u>	<u>158,315</u>

	<b>2012 £000</b>	<b>2011 £000</b>
<i>Reconciliation of market value of investments</i>		
Market value at beginning of year	178,793	180,583
Investments purchased	119,487	11,781
Investments sold	(127,250)	(28,933)
Total gains on managed fund investments	2,140	14,052
Movement in investment managers' cash balances	927	1,310
	<u>174,097</u>	<u>178,793</u>

As at 31 March 2012, 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>2012 Market value £000</b>	<b>2012 Cost £000</b>	<b>2011 Market value £000</b>	<b>2011 Cost £000</b>
Insight Investment Management	51,866	47,866	49,862	47,325
Blackrock Global Investors	101,190	87,342	109,624	92,350
Schroders	21,041	20,154	19,307	18,639
	<u>174,097</u>	<u>155,362</u>	<u>178,793</u>	<u>158,314</u>

**Notes (continued)**

**6 Programme-related investments**

	Group		Charity	
	2012 £000	2011 £000	2012 £000	2011 £000
Equity (below)	2,257	1,795	37,646	50,780
Loans (note 7)	660	836	660	836
	2,917	2,631	38,306	51,616
	2,917	2,631	38,306	51,616

Equity - Group	Shares in subsidiary undertakings £000	Unlisted investments £000	Total £000
<i>Cost</i>			
At beginning of year	7,771	626	8,397
Additions	462	-	462
Disposals	(6,001)	-	(6,001)
	2,232	626	2,858
Cost at end of year	2,232	626	2,858
<i>Provisions</i>			
At beginning of year	6,001	601	6,602
Released in year	(6,001)	-	(6,001)
	-	601	601
Provisions at end of year	-	601	601
<i>Net book value</i>			
At 31 March 2012	2,232	25	2,257
At 31 March 2011	1,770	25	1,795

Equity – Charity	Shares in subsidiary undertakings £000
<i>Cost</i>	
At beginning of year	73,300
Additions	720
Capital reduction in year	(35,000)
	39,020
Cost at end of year	39,020
<i>Provisions</i>	
At beginning of year	22,520
Released in year	(21,146)
	1,374
Provisions at end of year	1,374
<i>Net book value</i>	
At 31 March 2012	37,646
At 31 March 2011	50,780



**Notes (continued)**

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

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:

	2012 SLAP £000	2012 SHEAP £000	2012 VEL £000	2012 Total £000	2011 Total £000
<b>Turnover</b>	2,570	1,965	-	4,535	4,479
Cost of sales	(157)	(915)	-	(1,072)	(1,007)
<b>Gross profit</b>	2,413	1,050	-	3,463	3,472
Administration expenses	(424)	(699)	(211)	(1,334)	(2,565)
Gift aid payment to Shetland Charitable Trust	(3,082)	(399)	-	(3,481)	(3,048)
Other operating income	10	9	-	19	10
<b>Operating (loss) profit</b>	(1,083)	(38)	(211)	(1,333)	(2,131)
Reversal of investment property valuation deficit	-	-	-	-	81
Interest receivable and similar income	536	1	1	538	602
<b>(Loss) on ordinary activities before taxation</b>	(547)	(37)	(210)	(795)	(1,448)
Tax on (loss) on ordinary activities	124	11	-	132	7
<b>(Loss) on ordinary activities after taxation being loss for the financial year</b>	(423)	(26)	(210)	(663)	(1,441)

## 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:

	2012 Total £000	2011 Total £000
Cost of sales	1,072	1,007
Administration expenses	1,334	2,565
Reversal of investment property valuation deficit	-	(81)
Tax charge (credit) on profit on ordinary activities	(132)	(7)
Minority interest	-	(50)
	<u>2,274</u>	<u>3,434</u>

Included within the companies' profit (loss) for the year is a total of £3,481,149 (2011: £3,048,509) 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:

	2012 SLAP £000	2012 SHEAP £000	2012 VEL £000	2012 Total £000	2011 Total £000
Tangible fixed assets	23,197	452	-	23,649	20,045
Investments	25	-	2,069	2,094	1,797
Current assets	26,531	648	356	27,535	31,189
Current liabilities	(610)	(473)	(507)	(1,590)	(1,081)
Creditors: amounts due after one year	(977)	(27)	-	(1,004)	(1,144)
Total net assets	<u>48,166</u>	<u>600</u>	<u>1,918</u>	<u>50,684</u>	<u>50,806</u>
Called up share capital	35,000	600	3,420	39,020	73,600
Profit and loss account	12,985	-	(1,502)	11,483	(22,857)
Revaluation reserve	181	-	-	181	63
Total reserves	<u>48,166</u>	<u>600</u>	<u>(1,918)</u>	<u>50,684</u>	<u>50,806</u>

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

	2012 £000	2011 £000
Group and charity		
Agricultural Ten Year Loan Scheme	719	898
Provisions for doubtful debts	(59)	(62)
	<u>660</u>	<u>836</u>

**Notes (continued)**

**8 Debtors**

	Group		Charity	
	2012 £000	2011 £000	2012 £000	2011 £000
Trade debtors	768	639	36	1
Amounts owing from subsidiary undertakings	-	-	-	30
Prepayments and accrued income	1,118	1,761	1,100	1,700
Other debtors:				
Loan repayments due	-	1	-	1
VAT recoverable	33	100	-	-
Programme-related loans	878	827	878	827
	<u>2,797</u>	<u>3,328</u>	<u>2,014</u>	<u>2,559</u>

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

	Group		Charity	
	2012 £000	2011 £000	2012 £000	2011 £000
Trade creditors	95	477	-	-
Rents in advance	66	66	-	-
Other tax and social security	14	20	6	4
Other creditors and accruals	2,016	1,754	580	1,256
	<u>2,191</u>	<u>2,317</u>	<u>586</u>	<u>1,260</u>

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

Charity	2012 £000	2011 £000
Loan from subsidiary undertaking	<u>22,500</u>	<u>26,000</u>

The loan of £22,500,000 (2011: £26,000,000) from Shetland Leasing and Property Developments Limited represents an unsecured loan which is repayable between 2013 and 2017. It bears interest at a rate of 1.5% over base rate.

**Notes** *(continued)*

**11 Provisions for liabilities and charges**

<b>Group</b>	<b>Deferred taxation</b>
	<b>£000</b>
At beginning of year	1,138
Credit for the year	(54)
Effect of increased tax rates	(87)
Adjustment in respect of prior period	7
	1,004
At end of year	1,004

The deferred tax liability arising within the Trust's subsidiary companies at the year end of £1,004,000 (2011: £1,138,000) is analysed as follows:

	2012	2011
	£000	£000
Accelerated capital allowances	196	243
Other timing differences: Gift aid	808	793
Other timing differences	-	102
	1,004	1,138
	1,004	1,138

**12 Expendable endowment**

	Group Total	Charity Total
	£000	£000
At beginning of year	244,681	222,160
Outgoing resources	(1,324)	(15,178)
Transfer to general funds	(36,375)	-
Gains in the year	2,140	2,140
	209,122	209,122
At end of year	209,122	209,122

**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	(17,219)	(6,937)	64	(1,113)	300	(24,905)
Net movement in funds	(5,694)	2,293	117	(130)	(300)	(3,714)
Transfers between funds	18,746	17,629	-	-	-	36,375
At end of year	<u>(4,167)</u>	<u>12,985</u>	<u>181</u>	<u>(1,243)</u>	<u>-</u>	<u>7,756</u>

Charity	General funds £000	Pension reserve £000	Total unrestricted income funds £000
At beginning of year	(1,297)	(1,113)	(2,410)
Net incoming resources before other recognised gains and losses	(2,906)	-	(2,906)
Actuarial losses	-	(94)	(94)
Transfer to (from) pension reserve	36	(36)	-
At end of year	<u>(4,167)</u>	<u>(1,243)</u>	<u>(5,410)</u>

The Trustees have considered the presentation and classification of their fund balances and, following the capital restructuring undertaken in Shetland Leasing and Property Developments Limited, taken the opportunity to make transfers between the expendable endowment and the general and trading funds held within unrestricted income funds in order to simplify the presentation. Accordingly, the group trading funds balance now represents the accumulated surplus on the Trust's subsidiary company undertakings, while the group and charity general fund balances have been brought into alignment.

**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 2011 and was updated for FRS 17 purposes to 31 March 2012 by a qualified independent actuary.

	2012 £000	2011 £000
Present value of funded defined benefit obligations	(2,598)	(2,409)
Fair value of plan assets	1,427	1,443
	<u>(1,171)</u>	<u>(966)</u>
Present value of unfunded defined benefit obligations	(72)	(147)
Net (liability)	<u>(1,243)</u>	<u>(1,113)</u>

**Notes** *(continued)*

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

Movements in present value of defined benefit obligation:

	2012	2011
	£000	£000
At 1 April	2,556	2,885
Current service cost	85	93
Interest cost	140	150
Actuarial losses / (gains)	(15)	(272)
Past service cost	-	(290)
Contributions by members	34	33
Benefits paid	(130)	(43)
	<hr/>	<hr/>
At 31 March	2,670	2,556
	<hr/> <hr/>	<hr/> <hr/>

Movements in fair value of plan assets:

	2012	2011
	£000	£000
At 1 April	1,443	1,286
Expected return on plan assets	101	96
Actuarial gains / (losses)	(109)	(12)
Contributions by employer	88	83
Contributions by members	34	33
Benefits paid	(130)	(43)
	<hr/>	<hr/>
At 31 March	1,427	1,443
	<hr/> <hr/>	<hr/> <hr/>

Expenditure recognised in the statement of financial activities:

	2012	2011
	£000	£000
Current service cost	(85)	(93)
Interest on defined benefit pension plan obligation	(140)	(150)
Expected return on defined benefit pension plan assets	101	96
Past service cost	-	290
	<hr/>	<hr/>
Total	(124)	143
	<hr/> <hr/>	<hr/> <hr/>

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

	2012	2011
	£000	£000
Charitable activities – support costs	(124)	143
	<hr/> <hr/>	<hr/> <hr/>

The total amount recognised in the other recognised gains and losses section of the statement of financial activities is a loss £94,000 (2011: gain £260,000).

**Notes** *(continued)*

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

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

	2012 Fair value £000	2011 Fair value £000
Equities	1,156	1,154
Corporate bonds	114	130
Property	100	101
Cash	57	58
	<u>1,427</u>	<u>1,443</u>
Actual return on plan assets	<u>14</u>	<u>85</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:

	2012 %	2011 %
Discount rate	4.8	5.5
Expected rate of return on plan assets	5.8	7.0
Future salary increases	4.8	5.1
Inflation / pension increase rate	<u>2.5</u>	<u>2.8</u>

In valuing the liabilities of the pension fund at 31 March 2012, 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: 23 years (male), 25.8 years (female).

Future retiree upon reaching 65: 24.9 years (male), 27.7 years (female).

***History of plans***

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

***Balance sheet***

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Present value of scheme liabilities	(2,670)	(2,556)	(2,885)	(1,628)	(1,578)
Fair value of scheme assets	1,427	1,443	1,286	866	1,254
	<u>(1,243)</u>	<u>(1,113)</u>	<u>(1,599)</u>	<u>(762)</u>	<u>(324)</u>

**Notes** *(continued)*

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

*Experience adjustments*

	2012 £000/%	2011 £000/%	2010 £000/%	2009 £000/%	2008 £000/%
Experience adjustments on scheme liabilities [as a percentage of scheme liabilities]	<u>165 / 6.2</u>	<u>(7) / (0.3)</u>	<u>(7) / (0.2)</u>	<u>(86) / 5.3</u>	<u>3 / 0.2</u>
Experience adjustments on scheme assets [as a percentage of scheme assets]	<u>(109) / (7.6)</u>	<u>(12) / (0.8)</u>	<u>300 / 23.3</u>	<u>(518) / (59.8)</u>	<u>(195) / (15.6)</u>

The Trust expects to contribute approximately £77,000 to its defined benefit plans in the next financial year to 31 March 2013.

**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.