



REPORT

To: Shetland Charitable Trust

15 November 2012

From: Chief Executive

Report: CT1211052

Schedule of Meetings 2013

1 Introduction and Key Decisions

1.1 The purpose of this report is to seek Trustees' approval as to the schedule of meetings up to December 2013. I propose to schedule 7 meetings for the year.

2 Proposed Schedule

2.1 For 2013, I propose the following meeting dates:

Thursday 21st February 2013
Thursday 28th March 2013
Thursday 23rd May 2013
Thursday 27th June 2013
Thursday 12th September 2013
Thursday 14th November 2013
Thursday 12th December 2013

2.2 The meetings will take place in Islesburgh Community Centre and will start at 10.00 am.

3 Recommendations

3.1 I recommend that the Trustees adopt the diary of meetings set out above for 2013.

Chief Executive
23 October 2012

Our Ref: EM/ TA1
Report Number CT1211052

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REPORT

To: Shetland Charitable Trust

15 November 2012

From: Financial Controller

Report No: CT1211055

MANAGEMENT ACCOUNTS – SIX MONTHS ENDED 30 SEPTEMBER 2012

1 Introduction and Key Decisions

- 1.1 This report presents the Trust's Management Accounts to the end of September 2012, for noting. These Management Accounts deal with revenue budgets and expenditure.

2 Management Accounts

- 2.1 Table 1 below shows the Summary Budget for the Charitable Trust for 2012/13 and the expenditure in the six months to 30 September 2012.

Table 1: Summary Management Accounts 2012/13

Item	Current Budget £m	Spend to Sept 12 £m
Charitable Expenditure		
Schemes and Organisations	8.5	3.6
Maintenance/Capital Programme	1.7	0.9
One-Off Projects	0.2	0.1
Operating Costs	0.5	0.3
Total	10.9	4.9

- 2.2 A more detailed analysis of the expenditure programmes is set out in Appendix 1.
- 2.3 The total budget for Schemes and Organisations is £8.5 million, of which £3.6 million has been spent to date. Where the running costs of projects are greater than £20,000, grant assistance is paid out in 2 stages - the first payment is made in April and the second is subject to a review of the organisation's accounts from the previous year.

- 2.4 The Maintenance Funding Programme includes £1.6 million which is paid to the major Trusts in two instalments with 50% of the budget being paid at the beginning of the year on submission of their maintenance programme for the year. The second instalment will be paid on receipt of a satisfactory statement of the first six months' expenditure.
- 2.5 Table 2 below sets out the revisions/enhancements to the original budget for 2012/13 to give the current budget.

Table 2: Budget Amendments

Original Budget Presented 21 February 2012	10,920,017
Approvals	Presented 29 March 2012
	Shetland Folk Festival Society
	18,000
Enhancement	SRT – Sandwick Pool Roof
	Balance c/fwd to cover retention
	29,366
Revised budget as at 30 September 2012	<u>£10,967,383</u>

- 2.6 Budget Virements have been effected as follows:-

£500 from the Supplies and Services Budget into the Professional Membership Fees Budget;

£500 from the Bank Charges Budget into the Administration Budget;

£6,500 from the Trustees' Allowances Budget into the Travel and Subsistence Budget, Trustees' Expenses Budget and the Miscellaneous Budget;

£10,000 from the Bought in Finance Budget and £1,000 from the Water Rates Budget into the Training and Staff Development Budget, Professional Fees Other Budget and the Energy Costs Budget.

3 Financial Implications

- 3.1 No direct financial implications flow from this information report.

4 Recommendations

- 4.1 I recommend that Trustees note the satisfactory financial performance to September 2012, as shown in the Management Accounts in Appendix 1.

Financial Controller
Shetland Charitable Trust
Our Ref:LF/DA5

Report No: CT1211055
Date: 31 October 2012

Shetland Charitable Trust Management Accounts
Charitable Expenditure : Period to 30 September 2012

Appendix 1
CT1211055

	Current budget £	Actual spend to 30 Sept £	year to date variance £
Shetland Amenity Trust	1,052,728	776,364	276,364
Shetland Arts Development Agency	696,038	348,019	348,019
Shetland Recreational Trust	2,518,550	1,259,275	1,259,275
<u>Other Charitable Organisations</u>			
Disability Shetland Recreation Club	12,641	12,641	0
The Swan Trust	44,650	22,325	22,325
VAS - New Shetlander	670	670	0
Shetland Churches Council Trust	54,055	27,028	27,027
Shetland Youth Information Service	188,840	94,420	94,420
Shetland Befriending Scheme	54,418	27,209	27,209
Citizens Advice Bureau	147,383	73,692	73,691
COPE Limited	154,967	77,484	77,483
Couple Counselling Shetland	12,000	12,000	0
Shetland Link Up	47,994	23,997	23,997
Voluntary Action Shetland	144,367	72,184	72,183
Festival Grants	30,000 *	30,000	0
Local Charitable Organisations	14,000	7,552	6,448
Womens Royal Voluntary Service	47,622	23,811	23,811
Alternative Psychological Therapies	26,212	0	26,212
Sub Total Charitable Organisations	5,247,135	2,888,671	2,358,464
<u>Schemes</u>			
Community Development Grants	14,272	5,250	9,022
Community Support Grants	72,321	10,830	61,491
Arts Grant Scheme	35,000	24,417	10,583
Sheltered Housing Heating	25,500	0	25,500
Senior Citizens Clubs	20,000	17,169	2,831
Support to Rural Care Model	2,491,000	622,750	1,868,250
Social Assistance Grants	35,000	2,225	32,775
Buses for Elderly and Disabled	49,980	20,825	29,155
Supported Employment	8,000	0	8,000
Sub Total Schemes	2,751,073	703,466	2,047,607
<u>Direct Schemes</u>			
Springfield	1,500	1,568	-68
Xmas grant Scheme	487,000	1,321	485,679
Planned Maintenance	1,711,549	873,665	837,884
Sub Total Direct Schemes	2,200,049	876,553	1,323,496
<u>One-Off Projects</u>			
SRT - Sandwick Pool Roof - Retention	29,366	0	29,366
SRT - Scalloway Pool Roof	200,000	131,117	68,883
Sub Total One-Off Projects	229,366	131,117	68,883
Trust Administration	539,760	361,485	178,275
Surplus Grants Refunded	0	-10,392	10,392
Total	10,967,383	4,950,900	5,987,117

* These budgets have been modified by subsequent decisions of the Trust

Shetland Charitable Trust Management Accounts
Management and Administration : Period to 30 September 2012

	Current budget £	Actual spend to 30 Sept £	year to date variance £
Staffing Costs			
Basic Pay and Allowances	350,000	171,040	178,960
Professional Membership Fees	1,500 v	308	1,192
Travel and Subsistence	10,000 v	4,096	5,904
Training and Staff Development	10,000 v	5,086	4,914
Sub Total Staffing Costs	371,500	180,530	190,970
Operating Costs			
Insurance	10,000	9,892	108
Administration	3,500 v	1,514	1,986
Supplies and Services	4,500 v	2,611	1,889
Bank Charges	500 v	239	261
Professional Fees: Other	6,000 v	7,889	-1,889
Miscellaneous Items	2,000 v	1,319	681
External Audit Fees	25,000	26,317	-1,317
Trustees' Allowances	1,000 v	622	378
Trustees' Expenses	8,000 v	2,260	5,740
Legal Fees	80,000	83,080	-3,080
Trustee Selection Costs	20,000	0	20,000
Sub Total Operating Costs	160,500	135,743	24,757
Property Costs			
Energy Costs	5,000 v	3,222	1,778
Water Rates	2,000 v	408	1,592
Cleaning	3,500	901	2,599
Sub Total Property Costs	10,500	4,531	5,969
Supplies Service	-70,000	-35,000	-35,000
Bought In Services			
Finance	33,000 v	28,680	4,320
Internal Audit	9,000	0	9,000
Committee Services	12,000	12,000	0
Computer Services	9,100	0	9,100
Messenger Service	2,000	0	2,000
Insurance Admin	2,160	0	2,160
Sub Total Bought In Services	67,260	40,680	26,580
Total	539,760	361,485	248,275

v These budgets have been modified by virements

REPORT

To Shetland Charitable Trust

15 November 2012

From: Chief Executive

Report No. CT1211056

RECOMMENDED DISBURSEMENTS – SOCIAL CARE

1. Background

- 1.1 This report concerns approvals by the Council's Director of Community Care Services in the period to 26 October 2012, in terms of Report Number CT/030/94, which was approved by the Trustees on 8 April 1994.

2. Social Assistance Grant Scheme - £199.54

- 2.1 The Director of Community Care approved the following;-

	(£)
2 Social Assistance Grant of up to £2,000 (Appendix A)	199.54

- 2.2 The grants would be allocated from the Social Assistance Grant Scheme budget head.

3. Recommendations

- 3.1 Trustees are asked to note the Social Assistance Grants referred to in paragraph 2.1, totalling £199.54.

Shetland Charitable Trust
Date: 5 November 2012
Ref: EM/DS1

Report No: CT1211056



Appendix A

SOCIAL ASSISTANCE GRANT SCHEME at 26 October 2012

Funds available in 2012/2013	£ 35,000.00
Less previously allocated	£ 2,324.99

Less the following: -

<u>Reference</u>	<u>Amount</u>
12/13 09	£141.94
12/13 10	£ 57.60

(2) Approval by Director of Community Care	£ 199.54
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Balance of Funds remaining	£ 32,475.47
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I confirm the above grants have been approved, for the relief of vulnerable persons in need by reason of age, ill health, disability or financial hardship.

Director of Community Care Services
Agent for the Trustees of Shetland Charitable Trust

REPORT

To: Shetland Charitable Trust

15 November 2012

From: Chief Executive

Report No. CT1211057

RECOMMENDED DISBURSEMENTS – APPROVALS

1. Background

- 1.1 On 30 March 2000, Trustees approved a report which authorised the then Director of Education and Community Services to act on behalf of the Trust and approve applications for community development and community support grants to organisations operating within Shetland. (Min. Ref. CT/19/00)
- 1.2 On 8 February 2006, Trustees approved a report which authorised the then Head of Service – Community Development to act on behalf of the Trust and approve applications for community arts grants to organisations and individuals operating within Shetland. (Min. Ref. CT/02/06)
- 1.3 It is a requirement that all approvals are reported to subsequent Trust Meetings.

2. Community Support Grants - £32,529

- 2.1 The following community support grants were approved by the Director of Development Services in the period from 27 August 2012 to 26 October 2012:-

Name of Organisation/ Individual	Grant Approved (£)
Whitedale Youth Club	962.00
Scalloway Youth Centre Management Committee	15,300.00
Sandwick Youth and Community Centre	15,255.00
1 st Sandwick/Cunningsburgh Boys Brigade	1,012.00

3. Community Arts Grants - £4,934

- 3.1 The following community arts grants were approved by the Director of Development Services, in consultation with Shetland Arts, in the period from 27 August 2012 to 26 October 2012: -

Name of Organisation/ Individual	Grant Approved (£)
Miss Helen Whitham	434.00
Shetland Jazz Club	3,000.00
Shetland Young Promoters Group	1,500.00

4. Recommendation

- 4.1 Trustees are asked to note the approvals listed in paragraphs 2.1 and 3.1.

Shetland Charitable Trust
Date: 5 November 2012
Our Ref: EM/DA1

Report Number CT1211057

REPORT**To:** Shetland Charitable Trust

Date 15 November 2012

From: Financial Controller

Report: CT1211053

CAPITAL WORKS BRIDGING LOAN SCHEME - UPDATE**1. Introduction**

- 1.1 This report updates Trustees on the Capital Works Bridging Loan Scheme.

2. The Scheme

- 2.1 Trustees agreed, in the spring of 2010, to make up to £1 million available interest free to alleviate cash flow problems experienced by community organisations when waiting for funding from EU/Scottish Government SRDP/LEADER/ERDF grants to come through.
- 2.2 Funding for capital projects is only released once work has been completed and invoices paid. This creates an almost insurmountable cashflow burden for most organisations.

3. Update

- 3.1 Appendix A lists each bridging loan made to date. Eleven organisations have received a bridging loan, six have fully repaid their loans and one has made a part payment. In total £778,655 has been repaid. £587,277 remains due to be repaid by five organisations as they receive their grants. Feedback on the scheme from organisations has been very positive.

4. Financial Implications

- 4.1 There are no new implications arising from this report. However, it should not be forgotten that the provision of interest free loans does mean that the capital involved is not generating investment return. The lost return to the Trust is potentially about £35,000 pa.

5. Conclusion

- 5.1 Eleven capital projects undertaken by community groups throughout Shetland might not have happened without the support of the Trust's scheme.

6. Recommendation

6.1 I recommend that Trustees note this report.

Reference: JPG/emDC14
Date: 8 October 2012

Report Number CT1211053

Shetland Charitable Trust Capital Works Bridging Loan

CT1211053 – Appendix A

PROJECT	BRIDGING LOAN £	REPAID £	DUE TO SCT £	NOTE
Burravoe Pier	25,650	25,650		
Ollaberry Hall	110,000	110,000		
Bressay Sports Park	114,537		114,537	The Bressay Sports Park is open and in use. The final grant payment is expected shortly which will enable the bridging loan to be settled
Scalloway Museum	345,000	34,500	310,500	The Scalloway Museum is open and in use. A partial repayment of 10% of the bridging loan has been received with the remainder being repaid hopefully before the end of 2012
Fair Isle Hall	62,000	62,000		
Sandsayre Pier	170,000	170,000		
Sandness Hall	100,000	100,000		
Northmavine Club	26,640		26,640	The new Amenity Building at the Northmavine Club is complete and open to the public. The bridging loan is expected to be repaid shortly
Hillswick Hall	100,000		100,000	The Hillswick Hall refurbishment project is underway
Fetler Electric Minibus	35,600		35,600	The electric minibus is on order and is likely to enter service in early 2013
Mareel	276,505	276,505		
TOTALS	1,365,932	778,655	587,277	



REPORT

To: Shetland Charitable Trust

15 November 2012

From: Financial Controller

Report: CT1211058

FUND MANAGER TRANSACTIONS

1. Introduction

1.1 Shetland Islands Council provides Treasury support to Shetland Charitable Trust under the terms of a Service Level Agreement (SLA).

2. Investment Decisions

2.1 Appendix A lists the investment decisions made by Insight Investment Management Limited during the period from 1st July 2012 to 30th September 2012.

2.2 BlackRock made no purchases or sales between 1st July 2012 to 30th September 2012.

2.3 Schroder Investment Management Limited made no purchases or sales between 1st July 2012 to 30th September 2012.

2.4 These appendices list purchases in order of transaction size and sales in order of the size of the gain or loss made on the transaction.

2.5 The Fund Managers make investment decisions based on the terms of Investment Management Agreements.

3. Movement on Charitable Trust Funds

3.1 The following table shows the movement on the Charitable Trust funds for the current financial year, 2012/13, up to 2nd November 2012:

	£ million
Mkt Value at 1 Apr 2012	174.1
Market Movement	4.8
Injection/(Withdrawal)	(4.3)
Mkt Value at 2 Nov 2012	<u>174.6</u>

(These are unaudited figures and are for information only.)

4. Recommendation

4.1 The Trustees are asked to note this report.

INSIGHT INVESTMENT MGMT REPORT - PURCHASES

NAME OF SECURITY	AREA	DATE	NUMBER OF UNITS	PURCHASE PRICE (£)
	QF = quoted fixed UF = unquoted fixed			
UNITED KINGDOM				
TSY 3 3/4% 2021 T-GILT 3.75% 7/9/2021 GBP	QF GB GB	14/08/2012	2,241,000.00	2,668,717.26
UK(GOVT OF) 4.75% STK 7/12/2030 GBP0.01	QF GB GB	02/07/2012	1,464,551.00	1,925,152.29
UK(GOVT OF) 4.75% STK 7/12/2030 GBP0.01	QF GB GB	02/07/2012	1,296,449.00	1,700,941.09
ILF GBP LIQUIDITY FD	DEP	29/08/2012	1,460,000.00	1,460,000.00
UK(GOVT OF) 2.25% TSY GILT 07/03/14 GBP	QF GB GB	17/08/2012	1,400,000.00	1,444,828.00
ILF GBP LIQUIDITY FD	DEP	15/08/2012	1,255,000.00	1,255,000.00
TSY 0 1/8% 2029 I/L STK .125% 22 MAR 2029	QF GIL GB	23/07/2012	347,000.00	368,487.35
TSY 0 1/8% 2029 I/L STK .125% 22 MAR 2029	QF GIL GB	17/07/2012	347,000.00	367,633.96
ILF GBP LIQUIDITY FD	DEP	24/09/2012	365,000.00	365,000.00
TSY 0 1/8% 2029 I/L STK .125% 22 MAR 2029	QF GIL GB	11/09/2012	284,000.00	296,865.13
UK(GOVT OF) 0.75% I/L STK 22/11/2047	QF GIL GB	04/07/2012	108,000.00	154,534.70
UK(GOVT OF) 0.75% I/L STK 22/11/2047	QF GIL GB	16/07/2012	107,000.00	153,608.38
UK(GOVT OF) 0.75% I/L STK 22/11/2047	QF GIL GB	19/09/2012	104,000.00	140,702.00
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	27/09/2012	111,000.00	135,389.71
UK(GOVT OF) 0.5% I/L STK 22/3/50 GBP	QF GIL GB	09/07/2012	102,000.00	131,796.32
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP	QF GIL GB	04/07/2012	78,000.00	118,547.49
ILF GBP LIQUIDITY FD	DEP	24/07/2012	115,000.00	115,000.00
UK(GOVT OF) 0.75% I/L STK 22/3/34 GBP	QF GIL GB	03/09/2012	93,000.00	113,075.78
UK(GOVT OF) 0.75% I/L STK 22/11/2047	QF GIL GB	14/09/2012	82,000.00	112,016.29
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	06/09/2012	79,000.00	111,843.58
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	25/07/2012	79,000.00	111,114.79
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP	QF GIL GB	06/07/2012	72,000.00	111,071.75
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	06/09/2012	79,000.00	110,981.21
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP	QF GIL GB	04/07/2012	72,000.00	110,050.02
UK(GOVT OF) 4.125% I/L STK 22/07/30 GBP	QF GIL GB	24/07/2012	35,000.00	109,809.00
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	24/07/2012	78,000.00	109,569.92
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP	QF GIL GB	07/09/2012	73,000.00	108,920.37
UK(GOVT OF) 0.75% I/L STK 22/11/2047	QF GIL GB	17/07/2012	72,000.00	103,215.52
UK(GOVT OF) 0.75% I/L STK 22/11/2047	QF GIL GB	12/07/2012	71,000.00	101,722.67
ILF GBP LIQUIDITY FD	DEP	18/07/2012	95,000.00	95,000.00
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP	QF GIL GB	04/07/2012	60,000.00	91,291.10
UK(GOVT OF) 0.25% I/L STKT 22/3/52	QF GIL GB	25/09/2012	90,000.00	86,455.80
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	06/07/2012	62,000.00	80,332.04
UK(GOVT OF) 0.75% I/L STK 22/3/34 GBP	QF GIL GB	11/09/2012	58,000.00	68,755.71
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	12/09/2012	35,000.00	43,485.32
ILF GBP LIQUIDITY FD	DEP	05/07/2012	40,000.00	40,000.00
ILF GBP LIQUIDITY FD	DEP	09/07/2012	40,000.00	40,000.00
ILF GBP LIQUIDITY FD	DEP	07/09/2012	40,000.00	40,000.00
UK(GOVT OF) 0.125% I/L STK 3/44 GBP	QF GIL GB	24/07/2012	36,000.00	36,111.96
ILF GBP LIQUIDITY FD	DEP	23/07/2012	35,000.00	35,000.00
UK(GOVT OF) 0.125% I/L STK 3/44 GBP	QF GIL GB	24/07/2012	28,800.00	28,889.57
UK(GOVT OF) 0.125% I/L STK 3/44 GBP	QF GIL GB	24/07/2012	28,800.00	28,889.57
UK(GOVT OF) 0.125% I/L STK 3/44 GBP	QF GIL GB	24/07/2012	14,400.00	14,444.78
UK(GOVT OF) 0.75% I/L STK 22/3/34 GBP	QF GIL GB	19/09/2012	12,000.00	14,143.06
ILF GBP LIQUIDITY FD	DEP	26/07/2012	5,000.00	5,000.00
ILF GBP LIQUIDITY FD	DEP	22/08/2012	5,000.00	5,000.00
ILF GBP LIQUIDITY FD	DEP	02/07/2012	2,140.67	2,140.70
ILF GBP LIQUIDITY FD	DEP	03/09/2012	1,914.54	1,914.65
ILF GBP LIQUIDITY FD	DEP	01/08/2012	1,564.01	1,564.09
TOTAL UNITED KINGDOM				<u>14,874,012.93</u>
OVERSEAS				
NO OVERSEAS INVESTMENTS PURCHASED				
TOTAL OVERSEAS				<u>0.00</u>

INSIGHT INVESTMENT MGMT REPORT - SALES

NAME OF SECURITY	AREA	DATE	NUMBER OF UNITS	SELLING PRICE (£)	PROFIT/ (LOSS) (£)
	QF = quoted fixed UF = unquoted fixed				
UNITED KINGDOM					
UK(GOVT OF) 4.5% STK 07/12/2042 GBP0.01	QF GB GB	02/07/2012	2,031,000.00	2,614,303.20	273,460.14
INSIGHT INV DISCRE UK CRP ALL MAT BD GROSS S	QF UT GB	18/09/2012	1,012,786.43	1,600,000.00	124,911.31
UK(GOVT OF) 4% GILT 22/1/2060 GBP0.01	QF GB GB	14/08/2012	1,012,000.00	1,251,186.20	101,950.36
UK(GOVT OF) 0.75% I/L STK 22/3/34 GBP	QF GIL GB	18/09/2012	240,000.00	284,922.78	18,396.36
UK(GOVT OF) 4.75% STK 7/12/2030 GBP0.01	QF GB GB	23/07/2012	339,000.00	461,345.10	16,127.55
UK(GOVT OF) 4.75% STK 7/12/2030 GBP0.01	QF GB GB	17/07/2012	339,000.00	459,514.50	14,296.95
UK(GOVT OF) 0.75% I/L STK 22/3/34 GBP	QF GIL GB	06/07/2012	101,952.00	124,546.64	12,104.11
UK(GOVT OF) 1.25% I/L STK 22/11/55 GBP	QF GIL GB	09/07/2012	63,000.00	117,596.06	11,339.37
UK(GOVT OF) 0.75% I/L STK 22/3/34 GBP	QF GIL GB	04/07/2012	111,000.00	133,882.37	11,260.83
UK(GOVT OF) 0.75% I/L STK 22/3/34 GBP	QF GIL GB	04/07/2012	102,000.00	123,450.34	10,954.87
UK(GOVT OF) 0.75% I/L STK 22/3/34 GBP	QF GIL GB	06/07/2012	84,847.00	103,119.28	9,541.80
UK(GOVT OF) 1.25% I/L STK 22/11/55 GBP	QF GIL GB	04/07/2012	49,528.00	92,792.46	9,257.83
UK(GOVT OF) 0.75% I/L STK 22/3/34 GBP	QF GIL GB	04/07/2012	85,000.00	102,626.77	8,880.55
UK(GOVT OF) 2% I/L STK 26/01/35 GBP0.01	QF GIL GB	14/09/2012	58,000.00	113,332.00	7,519.42
UK(GOVT OF) 4.5% STK 07/12/2042 GBP0.01	QF GB GB	18/09/2012	60,000.00	75,545.40	6,391.99
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP	QF GIL GB	18/09/2012	150,000.00	222,989.26	5,765.31
UK(GOVT OF) 4% GILT 22/1/2060 GBP0.01	QF GB GB	18/09/2012	115,000.00	135,571.20	4,976.22
UK(GOVT OF) 2.5% I/L STK 17/07/24 GBP	QF GIL GB	07/09/2012	33,000.00	110,253.00	4,155.75
UK(GOVT OF) 2.5% I/L STK 17/07/24 GBP	QF GIL GB	24/07/2012	33,000.00	110,170.50	4,073.25
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP	QF GIL GB	12/07/2012	40,000.00	61,141.86	3,333.62
UK(GOVT OF) 2.5% I/L STK 17/07/24 GBP	QF GIL GB	03/09/2012	17,910.00	60,621.77	3,039.90
UK(GOVT OF) 2.5% I/L STK 17/07/24 GBP	QF GIL GB	06/09/2012	16,000.00	53,968.00	2,526.91
UK(GOVT OF) 2.5% I/L STK 17/07/24 GBP	QF GIL GB	06/09/2012	16,000.00	53,744.00	2,302.91
UK(GOVT OF) 2.5% I/L STK 17/07/24 GBP	QF GIL GB	25/07/2012	16,000.00	53,480.00	2,038.91
UK(GOVT OF) 2.5% I/L STK 17/07/24 GBP	QF GIL GB	24/07/2012	16,000.00	53,424.00	1,982.91
UK(GOVT OF) 4.25% GILT 07/12/2040 GBP	QF GB GB	18/09/2012	85,000.00	102,633.25	1,644.85
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	17/07/2012	55,985.00	72,322.60	1,485.94
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	04/07/2012	47,867.00	61,809.11	1,449.62
UK(GOVT OF) 1.875% I/L STK 22/11/22 GBP	QF GIL GB	19/09/2012	9,716.00	14,624.71	1,411.38
UK(GOVT OF) 2.25% TSY GILT 07/03/14 GBP	QF GB GB	28/08/2012	1,400,000.00	1,446,200.00	1,372.00
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	25/07/2012	43,000.00	55,075.36	668.35
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	24/07/2012	43,000.00	55,057.09	650.08
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	06/09/2012	44,000.00	56,285.30	613.01
UK(GOVT OF) 0.375% I/L STK 22/3/62	QF GIL GB	12/07/2012	34,000.00	39,552.80	488.86
UK(GOVT OF) 0.375% I/L STK 22/3/62	QF GIL GB	17/07/2012	26,508.00	30,807.88	351.79
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	09/07/2012	10,000.00	12,922.95	270.16
TSY 0 1/8% 2029 I/L STK .125% 22 MAR 2029	QF GIL GB	18/09/2012	160,000.00	168,358.98	217.65
UK(GOVT OF) 2.5% I/L STK 26/07/16 GBP	QF GIL GB	18/09/2012	27,000.00	93,293.37	194.67
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	06/09/2012	44,000.00	55,857.70	185.41
ILF GBP LIQUIDITY FD	DEP	17/07/2012	150,000.00	150,000.00	0.00
ILF GBP LIQUIDITY FD	DEP	25/07/2012	110,000.00	110,000.00	0.00
ILF GBP LIQUIDITY FD	DEP	26/09/2012	90,000.00	90,000.00	0.00
ILF GBP LIQUIDITY FD	DEP	13/09/2012	45,000.00	45,000.00	0.00
ILF GBP LIQUIDITY FD	DEP	10/07/2012	5,000.00	5,000.00	0.00
ILF GBP LIQUIDITY FD	DEP	20/09/2012	140,000.00	140,000.00	-0.01
ILF GBP LIQUIDITY FD	DEP	12/09/2012	310,000.00	310,000.00	-0.02
ILF GBP LIQUIDITY FD	DEP	03/07/2012	950,000.00	950,000.00	-0.03
ILF GBP LIQUIDITY FD	DEP	21/09/2012	705,000.00	705,000.00	-0.04
UK(GOVT OF) 4.5% GILT 07/03/13 GBP0.01	QF GB GB	02/07/2012	62,000.00	63,778.16	-177.94
UK(GOVT OF) 0.125% I/L STK 3/44 GBP	QF GIL GB	03/09/2012	52,142.00	52,118.81	-185.35
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	11/09/2012	43,000.00	54,046.97	-360.04
UK(GOVT OF) 4.75% STK 7/12/2030 GBP0.01	QF GB GB	18/09/2012	170,000.00	222,788.40	-477.04
UK(GOVT OF) 2.5% I/L STK 16/8/13 GBP0.01	QF GIL GB	18/09/2012	27,000.00	75,952.08	-574.02
TSY 0 1/8% 2029 I/L STK .125% 22 MAR 2029	QF GIL GB	27/09/2012	64,000.00	66,297.82	-958.71
UK(GOVT OF) 2.25% TSY GILT 07/03/14 GBP	QF GB GB	14/08/2012	2,594,000.00	2,679,991.10	-1,481.02
TSY 3 3/4% 2021 T-GILT 3.75% 7/9/2021 GBP	QF GB GB	18/09/2012	180,000.00	211,788.00	-2,566.80
UK(GOVT OF) 0.75% I/L STK 22/11/2047	QF GIL GB	18/09/2012	70,000.00	95,773.80	-4,788.05
UK(GOVT OF) 0.5% I/L STK 22/3/50 GBP	QF GIL GB	27/09/2012	56,000.00	67,207.97	-5,150.79
TOTAL UNITED KINGDOM				16,932,870.90	664,873.05

INSIGHT INVESTMENT MGMT REPORT - SALES

NAME OF SECURITY	AREA	DATE	NUMBER OF UNITS	SELLING PRICE (£)	PROFIT/ (LOSS) (£)
	QF = quoted fixed UF = unquoted fixed				
OVERSEAS					
INSIGHT GLOBAL II EX UK BOND S GBP ACC	QF UT IE	18/09/2012	19,430.15	349,995.24	154,935.99
EURO INV BANK 4.5% EMTN 14/1/2013 GBP1000	QF GB XB	17/08/2012	786,000.00	798,638.88	21,040.63
NORDIC INVEST BANK 4.875% MTN 7/12/12 GBP1000	QF GB XB	17/08/2012	613,000.00	621,189.68	-1,379.25
TOTAL OVERSEAS				<u>1,769,823.80</u>	<u>174,597.37</u>

REPORT

To: Shetland Charitable Trust

15 November 2012

From: Financial Controller

Report: CT1211054

Investment Monitoring

1 Introduction

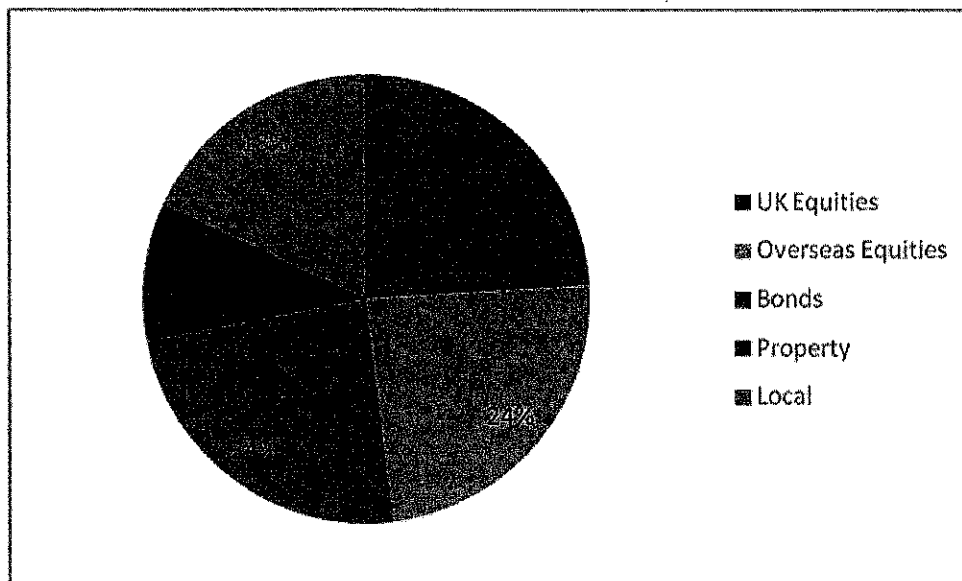
1.1 This report informs Trustees on investment performance. It mainly covers the last complete financial year 2011/12, but also looks at recent performance.

2 Background

2.1 As a charity, the Trust can only make investments that HM Revenue & Customs, HMRC, have approved as "charitable". Certain investments are automatically charitable, such as shares in listed companies, most bonds, units in suitable pooled vehicles and bank deposits. Other investments can only be made by a charity if specifically approved as charitable investments by HMRC. HMRC have indicated that they will usually approve investments as charitable where the charity can satisfy HMRC that the investment is being made to make money i.e. on a 'commercial' basis. The Trust has HMRC approval for its investments in Shetland Leasing and Property Developments Limited, SLAP, Shetland Heat Energy and Power Limited, SHEAP and Viking Energy Limited, VEL, on this basis.

3 Overview

3.1 The Trust has around £220 million of investable reserves (£217m at 31 March 2012 and c.£215m at present). Around 80% of the reserves are invested in the World's Market in UK Shares, Overseas Shares, Bonds and Commercial Property. Around 20%, c.£40m, is invested in the Shetland economy in shares in SLAP, Viking Energy and SHEAP, and in the District Heating Scheme Infrastructure and the land at Sullom Voe Terminal. The distribution of the reserves by different types of investment is shown below:



3.2 Trustees have set a target of achieving a return of 5% pa on top of growing the capital by inflation, so a simple average yield of about 8% pa where the capital is preserved, but a higher yield where the capital is consumed over the lifetime of the asset. Returns in 2011/12 were:

	£m	simple yield
World's Markets	6	3%
Invested Locally	3	8%

3.3 The figures above show that the local investments as a whole are doing well and achieving returns that match or exceed the Trust's target rate. Although the returns achieved on the world's markets are below target for 2011/12, a positive return for the year is about as much as could reasonably be expected given all the bad economic news of the last year or so. Trustees have previously accepted that the investment environment is not very favourable at the present time, and have reduced the expected returns for these types of investments over the current three year planning period to a simple 5% pa. This approach is not sustainable in the long run, but is realistic for the time being.

3.4 The detailed figures are not yet fully compiled for the first half of the current financial year, to 30 September 2012. However, the returns are likely to follow those of 2011/12, positive but below target on the funds invested in the World's markets and positive on the funds invested in the Shetland economy.

4 Investments in the World's Markets

4.1 The following table shows the movements in the overall investments in the World's markets:

	£million
As at 1 April 2011	179
Withdrawals	-11
Market Movement	6
As at 31 March 2012	<u>174</u>
Withdrawals	-5
Market Movements	4
As at 30 September 2012	<u><u>173</u></u>

- 4.2 The most significant factor contributing to the returns is the performance of the underlying market, so for example in 2011/12 UK shares returned 1.4% whereas UK Government bonds returned 14.5%. Trustees decide on the broad allocation between asset classes after taking appropriate advice. The largest portion of the Trust's funds are managed by Blackrock on a shares market tracking basis ('passive' management), fees are low and the manager delivers the market return. Trustees have taken a different approach with their investments in bonds and commercial property. Here 'active' management is used and Insight (bonds) and Schrodgers (property) are employed to select the best bonds or property vehicles to invest in. Here the manager can add or lose value relative to the market (or other managers). The manager charges higher fees than a passive manager does. Trustees need to monitor the performance of these Fund Managers relative to the market.
- 4.3 Fund Manager performance is set out in Appendix A.
- 4.4 Blackrock manages the Trust's shares portfolio on an index tracking or passive basis. Blackrock has achieved the Trust's target for that portfolio, of matching the markets. This is satisfactory.
- 4.5 Insight manages the Trust's bond portfolio on an active basis against the Trust's target of outperforming the market by 0.5% pa net of fees. Insight have beaten the target both in 2011/12 and over the last five years. This is very satisfactory.
- 4.6 Schrodgers manages the Trust's investment in commercial property on an active basis, through a fund of funds approach, against the Trust's target of outperforming the market by 1.0% pa net of fees. Schrodgers beat the market in 2011/12, but not by enough to achieve the target set. In the longer term Schrodgers have underperformed mainly due to a poor first year. The Trust invests for the long term and there will be short term ups and downs. However, it is not satisfactory for Schrodgers to underperform for any length of time and future prospects and improvements are a key point of ongoing discussions with the manager.
- 4.7 Fund manager performance relative to the markets in the current year, is following a similar pattern to 2011/12.

5 Investments in Shetland

- 5.1 Data on the local economy investments is set out in Appendix B. Each of the Trust's subsidiary companies have provided a short update as Appendix C for SLAP, Appendix D for Viking Energy and Appendix E for SHEAP.
- 5.2 SLAP has performed well, as it has done for some time now.
- 5.3 Viking Energy is an investment for the longer term. Returns are not expected until 2017/18, but once the windfarm is operational the expectation for the project is that high levels of income and profits will result. The Trust has a diversified investment portfolio, and within that portfolio it can have investments that aim to generate returns over several different timescales. The Trust's current investment in Viking Energy is just over £5 million, about 2½% of the overall portfolio. The Trust has committed to the investment rising to just under £10 million or nearly 5% of the overall portfolio. At this level it is reasonable for the Trust to invest in something that aims to produce much better returns than an 'average' investment in the long run.
- 5.4 SHEAP and the District Heating Scheme Infrastructure are another investment over the longer term. Over the expected lifetime of the Scheme (at least 35 years) SHEAP needs to return enough profits to the Trust to achieve the Trust's target rate of return. The existing scheme has grown for 10 years, when investment in has been more than profits out. That has now reversed and SHEAP should generate good profits from the existing infrastructure for the next 25 years or so.
- 5.5 The Trust receives rent from the oil industry for the land at Sullom Voe Terminal. The rent is throughput related and is expected to decline in the long term. More immediately, a two year shut down of the Schiehallion field is approaching which will significantly reduce throughput at the Terminal and so the rent received by the Trust will fall. The rental was £1.3 million in 2011/12 and this is a useful income for the Trust to have.
- 5.6 Overall the local economy investments are a good source of income for the Trust. Importantly, the income from them is both at a good rate of return and a lot more stable from year to year compared to that from say shares on the markets. The Trust is looking to invest further where sound commercial investments can be found.

6 Conclusions

- 6.1 The World economic outlook is not very favourable at present. Despite this, the investments on the World's markets are making a contribution to the Trust but not at the level as would be preferred.
- 6.2 The Trust's investments in the Shetland economy are, overall, doing well. As well as a good overall annual return to the Trust, that return does not vary as much from year to year as the return from say the stock market. The trust is looking to grow this part of its investment portfolio.

7 Recommendation

- 7.1 This is an information report. I recommend that trustees note the information in the report and appendices.

Financial Controller
29 October 2012

Our Ref: JPG/mj/IA01
Report Number CT1211054

Manager	£ million	Asset Type	Management	Absolute Performance ¹		Relative Performance ²	
				2011/12	Long Term ³	2011/12	Long Term ³
Blackrock	101	Shares	Passive	-0.5%	+35.0%	+0.1%	0.0%
Insight	52	Bonds	Active	+13.0%	+45.2%	+0.7%	+3.8%
Schroders	21	Property	Active	+5.9%	+27.7%	+0.2%	-4.2%

Notes:

- 1 This is the performance of the relevant market as a whole. The manager does not influence this.
- 2 This is the relative performance of the manager against the market. An active manager should beat the market.
- 3 Long term means: Three and a half years since inception for Blackrock, five years for Insight and two and three quarter years since inception for Schroders.

Investment	31/3/11 £ million	New Investment in 2011/12 £ million	31/03/12 £ million	Return in 2011/12 £ million	Yield in 2011/12 £ million	New Investment in 2012/13 to date £ million
SLAP	22.5	3.2	25.7 ¹	3.1 ¹	13.8%	1.1 ²
Viking Energy	3.0	0.42	3.42	0.0	0%	1.8 ³
SHEAP/DHS ⁴ Infrastructure	6.4	0.15	6.55	0.4 ⁴	6.25%	0.1
Land at SVT	0.9 ⁵	0.0	0.75 ⁵	1.3	144%	0.0

Notes:

- 1 The figures for SLAP are after adjusting for loans to SCT and the interest thereon.
- 2 The new investment in SLAP is in the infrastructure at Scatista airport.
- 3 Trustees agreed to invest up to a further £6.3 million in the Viking Energy project on 28 June 2012. £1.8 million of this has been released by 30 September 2012.
- 4 The Trust owns directly the District Heating Scheme Infrastructure. The target for returns from SHEAP is calculated on the basis of the trust's investment in the DHS Infrastructure and in SHEAP.
- 5 The land at SVT is shown at the net book value included in the Trust's accounts. This is likely to be considerably short of its true value, and lends to a high figure for the yield.

Shetland Leasing and Property Developments Limited

SLAP – Progress Report

1 Introduction

- 1.1 This report is presented to inform Trustees on progress in and activity by the Trust's wholly owned property company, Shetland Leasing and Property Developments Limited, (SLAP).
- 1.2 SLAP has more than 30 leased properties with a total value of £16 million at 31 March 2012. They are listed below:

SLAP Properties – October 2012		
Property	Description	Tenant
Blacksness Industrial Estate	Industrial Unit	Trouw Aquaculture
Blacksness Industrial Estate	Industrial Unit	SIC - Ports
66 Commercial Road	Offices	Shetland Telecom (SIC) and Modern Ports (SIC)
68 Commercial Road	Engineering Wholesale	L.E.S.S.
Commercial Road	Warehouse Workshop	HNP
Commercial Road	Land & Redundant Buildings	Vacant and in poor condition
Fetlar Camp Site	Camp site	Shetland Islands Council
Greenhead Base, Lerwick	Port/industrial facility	SBS (Base)
Greenhead Base, Lerwick	Industrial site	SIC (Land at Incinerator)
Greenhead Base, Lerwick	Warehouse 1	Vacant (development opportunity)
Land next to Greenhead Base	Industrial Site	Augean
FE College Phase 1, Gremista	College building	Shetland Islands Council
FE College Phase 2, Gremista	College building	Shetland Islands Council
Fish Factory, Ronas Voe	Fish Factory	Blueshell Mussels
Kantersted Road, Lerwick	Dry Cleaners, Site	Mr & Mrs A J T Watt
Kantersted Road, Lerwick	Takeaway, Site	Mr S Li
Lochside Stores, Lerwick	Shop	Mr M Johnston
NAFC, Scalloway	College	Shetland Islands Council
NE Farmers, Staney Hill	Wholesale warehouse	Harbro Ltd
2 North Ness, Lerwick	Offices	Millgaet Media
3 North Ness, Solar Hus	Office	SIC (HIE Shetland – sub tenant)
7 North Ness, Gutters' Hut	Offices	Bon Accord Accountancy

		FE College, Viking Energy
SLAP Properties – October 2012		
Property	Description	Tenant
8 North Ness	Offices	Shetland Islands Council HQ
Sandness Spinning Mill	Factory Unit	Jamieson Spinning Ltd
Sandwick Woollen Factory	Factory Unit	Laurence Odie (Knitwear) Ltd
Scatsta Airport	Leased Land and Buildings	Integrated Aviation Consortium BP
Sellaness Industrial Building	Industrial building	Mr A McKimm
Shetland Business Innovation Centre, Gremista	Training Centre	Shetland Islands Council Train Shetland
Staney Hill Land	Development Sites	n/a
Tourist Information Office	Tourist information Office	Scottish Government
Walls	Bakery	Walls Bakery
Walls Shop	Shop	Mr & Mrs Smith
Wethersta Industrial Complex	Workshops	Hjaltland Seafarms Ltd
Whalsay Fish Factory	Fish factory	Norpak Ltd

1.3 SLAP has a wide range of local private sector tenants, and other tenants are BP and the Scottish Government. Around one fifth of the properties are leased to Shetland Islands Council and the Council accounts for about one quarter of SLAP's rental income. SLAP's turnover (rents plus asset leasing income) was £2.6 million in 2011/12. SLAP has a further £7 million invested in Assets Under Construction at 31 March 2012. This is mainly the New Council Headquarters building at 8 North Ness. The building was completed on time and on budget and rentals started on it on 1 July 2012.

2 Purchases and Sales in 2011/12

2.1 SLAP has not purchased any new property in the year.

2.2 The Fish House and Cooperage Buildings in Whalsay were sold in September 2011. The land at Unit 1, Gremista Industrial Estate was sold in October 2011.

3 Current Activity

3.1 SLAP has agreed to sell the Ronas Voe Fish Factory and the Industrial Building at SellaNess, and these transactions are with the lawyers. SLAP has also agreed in principle to sell the land behind the Scalloway Museum and the site at the Kanterstead Dry Cleaners, and is waiting for the potential purchasers to raise the necessary funds.

3.2 SLAP is the oil industry's landlord at Scatsta Airport. SLAP has agreed an investment budget of £8 million to redevelop the airport.

SLAP expects to recover its outlays and generate a suitable return through increased rent. The first phase works: a new hangar, work on the old hangar, and refurbishing and increasing taxi-ways was completed by Garriock Brothers in June 2009. The second phase is underway with DITT as the contractor. It includes a new air traffic control tower, a refurbished and extended terminal building, and further works in the old hangar.

3.3 SLAP has agreed to redevelop Warehouse 1 at the Greenhead Base in conjunction with Malakoff Ltd. Malakoff have planning permission and expect to be onsite in the new year.

3.4 SLAP has grown considerably over the last five years or so. The Shetland Charitable Trust's investments in SLAP achieves the target of producing returns of at least the level Trustees expect on average from the "external" investments on the world's markets. SLAP would like to expand further.

4 Conclusion

4.1 SLAP is contributing successfully to the financial well being of the Shetland Charitable Trust. SLAP has responded to investment opportunities that have come to it. The appointment of a commercially focused board, who will actively look for suitable investment opportunities will take the company forward.

Ref: JPG/C11
Date: 25 October 2012

Report No: CT1211054– App C

Issue Date: November 2012

Viking Energy Shetland LLP

VIKING WIND FARM: PROJECT REPORT

From: VES LLP Board

To: Shetland Charitable Trust

1.0 Background

1.1 The Scottish Government granted consent for the Viking wind farm on 4 April 2012. The consent was for 103 turbines with a capacity of up to 457 MW.

1.2 At the end of June 2012 Trustees agreed a further investment of £6.3 million as the Trust's share of an established investment budget of £14 million which is required to take the project from consent to "financial close".

1.3 "Financial close" is the point at which all the information required for equity investors (SCT, Viking Wind Ltd and SSE) and lenders (banks and financial institutions) is in place to ensure that all financial due diligence requirements have been met. Due diligence must be watertight to provide confidence to shareholders and lenders to ensure that finance to construct, commission and operate the project can be formally sanctioned and triggered.

1.4 At consent the project gained a considerable financial value, reported to Trustees as worth somewhere between £50 million and £130 million. The subsequent decision of the Trust and other shareholders to continue to invest in the project has begun to finance the detailed work which is required to further underpin, and significantly enhance, that project value towards the top of the estimated value range. As detailed project information is gathered and processed the overall project uncertainty and related risk diminishes.

1.5 Uncertainty and risk need to be diminished to the point where the project can pass the minute scrutiny (due diligence) expected by all investors and undertaken by their rafts of technical and legal advisors.

2. Project Progress July 2012- Date

2.1 Since consent and since the subsequent decision by the investors to take the project to the next stage, work is now well underway on many fronts.

2.2 At a strategic level the following activities are ongoing:

- JV Agreement – Based on legal advice to shareholders on how best to manage taxation on future revenue streams, and to match this with the ability of project finance to be secured by a floating charge over the assets of the project, shareholders (including Shetland Charitable Trust) agreed to reconstitute the JV as a Limited Liability Partnership. This new structure requires adjustments to the existing Partnership Agreement. Brodies have recently been appointed as VES LLP's legal advisor. An initial set of proposals has been drafted by SSE's legal team and a detailed discussion and negotiation on this is now imminent.
- VES LLP Structure and Governance - As part of the process of channelling returning income streams back to SCT as tax efficiently as possible, the Shetland part of Viking Energy is now under the auspices of Viking Energy Shetland LLP. Viking Energy Ltd. is now migrating to a 100% owned subsidiary of Shetland Charitable Trust and this structure will mean that Shetland Charitable Trust will minimise the tax exposure it faces on the income streams it will obtain once the Viking project is operational. Following a decision by VES LLP's owners (SCT and Viking Wind Ltd) a process of recruiting a new board is underway with appropriate professional advice in place. VES LLP is now an employer and is in the process of ensuring that its core staff are an integral part of the business rather than temporary, albeit long term, secondments from third parties.
- VES LLP Recruitment- VES LLP is now recruiting a new board of up to 3 Members one of whom will be Chair. VES LLP has recruited its two existing officers to maintain continuity and knowledge within the project team. It has made an offer to a person for the new post of Community Liaison Officer with an appointment imminent for a start date in early January 2013.
- JV Governance- The new board of VES LLP are also likely to be Shetland's representatives on the JV board. The JV board has strategic responsibility for the oversight and control of the project. Below the JV Board sits a Management Committee. The Management Committee is responsible to the board for the delivery of the project. It consists of up to 3 senior representatives from each party to the JV. A Project Manager and wider project team has been appointed from within SSE. The Project Manager is responsible to the Management Committee for the day to day delivery of the project. The Project Manager is from an engineering background and has considerable experience already within SSE for the delivery of large scale onshore wind farms - on time and on budget. Levels of responsibility and delegated authority have now been established at the various levels of JV governance.
- ROC/CfD and EMR Strategy: ROCs are to be replaced in 2017 by "Contracts for Difference" under something called "Electricity Market Reform". The Management Committee has begun a work stream to optimise the strategic direction of the project against this background. Power Purchase Agreement proposals will form part of these considerations.
- Project Financing: Early discussions with prospective financial advisers, banks, financial institutions and turbine suppliers are now well underway.
- Turbine Procurement: Discussions are now at an advanced stage with a narrowed down list of potential turbine suppliers. Site visits and initial meetings have taken place and the competitive bidding process will continue for several months across increasing levels of detail.
- Grid: Liaison with National Grid and SHETL over connection contracts, dates and charging issues continues. Grid connection dates dictate the critical path for the project. The current grid connection contract date is December 2017 with wind farm and grid connection construction activity cascading around that. Liaison with HM Govt, the Scottish Govt and others over transmission charging arrangements to the Scottish Islands continues. Senior politicians are engaging with VES LLP and the JV around these issues culminating in a recent visit to Shetland by Ed Davey, Secretary of State for Energy and Climate Change.
- Operation and Maintenance Regime: Current thinking revolves around the requirements of the turbine procurement arrangements and related warranties required to underpin financing of the project. All competing manufacturers are proposing substantial local recruitment campaigns if successful.
- Judicial Review: Sustainable Shetland (via Frank Hay and Robina Barton) have lodged a petition for a Judicial Review into the handling by the Scottish Government of its consent for the project. Whilst the challenge is to the Scottish Government rather than Viking, Viking has appointed Senior and Junior Counsel and is instructing them (and providing them with very detailed information) with a view to active participation in the process if appropriate. The court hearing is now set over four days in late January 2013.

- Land Court: Plans are now well advanced to submit a "Scheme for Development" to the Scottish Land Court in respect of the crofting interest in the project, in due course.

2.3 At a project level the following activities are ongoing:

- Project Budget and Programme: A detailed cashflow projection of the process through to financial close has been developed. This includes time planning and budgeting for detailed surveys/investigations to complement and enhance the already detailed EIA work, ground investigation works (contractors – hopefully including many local civil engineering specialists- onsite from spring 2013), land access payments/arrangements, detailed ecological survey work, fees and licences (including consent application for public road enhancement for early site access purposes), detailed pre-construction engineering design work, legal fees, wind resource analysis, electrical enabling works and contingencies.
- The detail of the above is strategically and contractually confidential although members of the Viking project team would be happy to meet and go through the programme and budget in more detail with Trustees on a one to one/face to face basis.
- Financial Control: As well as putting in place clear governance arrangements, arrangements at a practical level to harmonise purchase orders, paying of invoices and financial reporting against budget and programme are now moving into place between the JV partners. This will involve bringing work currently undertaken by SCT in-house into the JV.
- Site Health & Safety: Work is now well underway towards ensuring a safe working environment and a safety culture on site as well as advance planning for construction workforce welfare.
- The site construction and environmental management plan is being finalised.
- Engagement on archaeological conditions is beginning.
- Engagement with SIC Planning on planning conditions is now well underway.
- Engagement with a view to finalising community benefit governance arrangements is now well underway.

3. Other Work:

- Beyond the project work outlined above there are the ongoing requirements of establishing and running a business independent of SCT, becoming an employer, stakeholder engagement, community engagement, political engagement and so on.

Viking Energy Shetland LLP

November 2012



Shetland Heat Energy and Power Limited (SHEAP) - Update

Current Activity

SHEAP is a company wholly owned by the Shetland Charitable Trust to run the Lerwick district heating scheme. District heating is a common technology in most of northern, central and eastern Europe and is in the forefront in tackling energy efficiency and resultant carbon emission reductions. The scheme is one of the largest in the UK and is unique in that it serves all sectors of the economy. The prime objective why the scheme was set up was that it was to benefit the Shetland economy. Other schemes in the UK tend to only serve single developments or city centres. The infrastructure is wholly owned by the Shetland Charitable Trust. This results in neither party paying corporation tax on the profits generated by SHEAP. The Shetland Charitable Trust currently sets the return it expects and achieving profits against the target set is the key performance target. SHEAP rents the infrastructure and pays for all maintenance. All profits are gift aided to the Shetland Charitable Trust. The current turnover is around £2 million.

The scheme started operation in November 1998. The company purchases heat from the Shetland Islands Council's energy recovery plant (ERP). For back up during maintenance of the ERP and peakloads the company owns and operates oil fired boilers. Up to 2012 over 1,100 properties have connected to the scheme. Customers range from hospitals, schools, a leisure centre, industrial and retail premises to domestic properties. There are 110 non domestic properties in the total taking about 60% of the demand.

The scheme has reached a situation where it can no longer take on any more customers until a cheaper than oil heat source is developed. The current project is that, in conjunction with SSE plc, a wind turbine farm will be developed at Rova Head and some of the electricity generated will heat water which will be stored in a large thermal storage tank until required. The project will incorporate the ability to help stabilise the electricity grid and allow more renewables to be developed elsewhere in Shetland. It has a great potential to showcase what could be done in the UK and remove the shortcomings of some renewables. At the same time the project will reduce the amount of oil SHEAP consumes thus improving the profitability and allow further expansion of the scheme to meet the growing demand for connections. Up to £800,000 of ERDF funding is available. Other options for heat could include heat from combined heat and power (including possibly the new power station), biomass, industrial waste heat, and heat pumps. The scheme demonstrates the flexibility that a district heating network could play in developing a wide range of renewables and improving energy efficiency overall.

As the scheme ages maintenance increases. Being the most remote and diverse scheme in the UK, SHEAP has to be as self sufficient as possible. It has to continually develop new methods of reducing potential interruptions of supply and keep on top of new developments in district heating. SHEAP is a member of the Combined Heat and Power Association (CHPA) and the UK District Energy Association (UKDEA), which consists primarily of district heating scheme operators. The scheme has shown the potential of district heating in the UK and has influenced central government thinking. It has recently been represented on the Scottish Government Expert Commission to examine ways of developing district heating in Scotland.

SHEAP has been active in looking into other renewables. It has provided advice on other schemes being considered in Shetland and has been paid for providing advice on some other schemes in the UK.

The next 5 Years

Funding has been approved for our part of the NINES programme. Planning permission has been received for:

- the large thermal storage tank on the SSE power station site
- the extension to the Peak Load Boiler Station which will house the electric boiler feeding hot water to the thermal storage tank

Tenders were received for the thermal storage tank and the lowest tender came within budget. Unfortunately there have been unforeseen delays with the lease with SSE and the bund size so the works have had to be delayed until next year. As the 3 wind turbines at Luggies Knowe (Rova Head) are not expected to be commissioned until Autumn 2014 the main pressure is to ensure the ERDF grant is not affected by the delays.

The provisional SHEAP programme is now:

Spring 2013 Extend existing bund

Construct large thermal storage tank

Construct extension to Peak Load Boiler Station

Summer 2013 Start assessing programme for new connections

Autumn 2013 Commission new tank although usage will be limited

Limited start on connections that will not be live until Spring 2014

Order electric Boiler

Spring 2014 New connections up to 100 per year for next 4 years

Install and commission electric boiler

Autumn 2014 NINES fully operational

During the time period SSE will be undertaking the wind farm, transmission line and sub stations.

By 2018 it is hoped to have around 1500 customers. By this time the Viking issue will have been decided and the new power station will have been built and the options on fuelling the expansion of the scheme further will be much clearer.

REPORT

To: Shetland Charitable Trust

Date 15 November 2012

From: Financial Controller

Report: CT1211060

WINDFARMS AND PROPERTY VALUES

1. Introduction

- 1.1 This report provides Trustees with the opportunity to note a further response from the Shetland partner in the Viking Energy project concerning property values and windfarms.

2. Background

- 2.1 Trustees decided to invest up to a further £6.3 million in the Viking Energy project to develop a very large commercial windfarm at their meeting of 28 June 2012. As part of the decision Trustees asked that project consider the suggestion that a fund should be set up to compensate householders whose properties are devalued as a result of the windfarm, if and when they move.
- 2.2 Viking Energy's first response was reported to the last Trustee meeting on 13 September. Some Trustees described the response as inadequate and expressed surprise that there had been no consultation with the local valuation profession. The Chair agreed to write again to give these comments to Viking Energy and invite a further response.

3. Current Position

- 3.1 Viking Energy Shetland LLP, the Shetland partner in the Viking Energy project has responded and their letter is reproduced as Appendix A.

4. Conclusion

- 4.1 Viking Energy Shetland LLP have now consulted the local valuation profession as suggested. Viking Energy Shetland LLP's view is that it is premature to consider setting up a fund at this stage. This position does not prevent the issue being revisited in the future.

5. Recommendations

- 5.1 Trustees are recommended to note the content of this report.

Reference: JPG/em/IS6
Date: 5 November 2012

Report Number CT1211060



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COPY

2 November 2012

Dear Drew

Windfarms and property values

Thank you for your letter of 16 October. I regret that my earlier response was felt not to have addressed concerns raised about property values adequately.

This is a subject which has been, and continues to be, discussed and reviewed within our local project team from time to time.

This review process includes investigation using the published material which is available. It was also one of the subjects discussed with communities neighbouring existing windfarms on mainland Scotland during several of our visits with Shetland community representatives to those developments, both completed and under construction.

Recently I have spoken with the surveying profession locally, and am currently in touch with the national organisation.

There is widespread agreement that, among the many factors that prevail in valuing properties, it is rarely possible to quantify objectively any effect of windfarms on prices realised. There is also a significant measure of agreement that it is even more difficult to assess the effects of planned windfarms rather than those where the development is complete and operational, and any causes for concern can be objectively measured.

The current project timeline for Viking points to first turbines being erected in 2017. At this still relatively early stage of the project it is too soon to be taking specific measures. In the meantime, circumstances will be kept under periodic consideration and the dialogue which has been opened up here should continue.

It should be noted that no renewable industry precedent exists for establishing a property compensation fund. This project has no income of its own. Any compensation

would have to be funded by contributions from the partners in the development, or by individual partner(s) if not all were willing to contribute.

I would welcome the opportunity to meet the Trustees to discuss this and other project matters. Ongoing dialogue will ensure that the project knows Trustees' thinking, and that their thoughts are informed by up-to-date information from project staff.

Yours sincerely,

Bill Manson
Chair, Viking Energy