

General Manager: Dr Ann Black

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Our Ref: EMA/TA1/1
Your Ref:

Date: 7 August 2011

Dear Sir/Madam

Shetland Charitable Trust - 8 September 2011

Please note that the following agenda has been amended to re-locate item 10, "Psychological Therapies Update", to the CONFIDENTIAL section of the meeting.

Yours faithfully

(signed) Dr Ann Black

General Manager

AGENDA

- (a) Hold circular calling the meeting as read.
- (b) Apologies for absence, if any.
- (c) Declarations of Interest.
- (d) Confirm minutes of the meeting held on 23 June 2011 and special meeting held on 6 July 2011(enclosed).

For Decision

1. Shetland Charitable Trust – Annual Report and Accounts for Year to 31 March 2011. Report enclosed.
2. Investment Monitoring – Shetland Leasing and Property Developments Limited (SLAP). Report enclosed.
3. Three Year Budgeting. Report enclosed.

For Information

4. Future Governance Arrangements of Shetland Charitable Trust. Report enclosed.
5. District Heating Scheme – Monitoring Report 2011. Report enclosed.
6. Management Accounts – Three Months Ended 30 June 2011. Report enclosed.
7. Fund Manager Transactions. Report enclosed.
8. Recommended Disbursement - Approvals. Report enclosed.
9. Recommended Disbursements – Social Care. Report enclosed.

The following items contain **CONFIDENTIAL** information

For Information

10. Psychological Therapies Update. Report enclosed.
11. Deeds Executed. Report enclosed.
12. Sums Due But Unpaid Over One Month Old as at 31 July 2011. Report enclosed.

REPORT

To: Shetland Charitable Trust

8 September 2011

From: Financial Controller

Report: CT1109050-f

**Shetland Charitable Trust
Annual Report and Accounts for the year to 31 March 2011****1. Introduction**

- 1.1 The Annual Report and Accounts for the year to 31 March 2011, which follow as Appendix A, are prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

2. Commentary

- 2.1 Appendix B contains my summary of the accounts. The first page shows the financial movements in the year. The first section headed up "fund managers" shows the effect of the continuing recovery in the world's markets in 2010/11, with a gain of almost £11 million in the year.
- 2.2 The local investments continue to do well, returning £5 million on a portfolio of about £25 million. They consist of SLAP's leasing and property portfolio, the land at Sullom Voe Terminal and the District Heating Scheme infrastructure.
- 2.3 Charitable expenditure for 2010/11 was within the target level of £11 million. A lot of further information on charitable activities is provided in the Annual Report.
- 2.4 The second sheet of Appendix B shows a balance sheet as at 31 March 2011 with the year before as a comparison. The managed funds show an increase, and overall net assets stand at £219.8 million. This is a significant improvement on the position two years earlier, and is very close to the long term target of having net assets of £220 million.
- 2.5 Appendix C is a letter of representation to KPMG, which on behalf of the Trustees, as required to complete the audit.
- 2.6 Appendix D is a report from KPMG LLP, which summarises the work by the auditors.

3. Financial Implications

3.1 Investment returns in 2010/11 have exceeded spending, and this has brought the level of net assets up to the level of to the long run target.

4. Recommendations

4.1 Trustees are asked to:-

- a) approve the Annual Report and Accounts for the year to 31 March 2011;
- b) authorise the Chairman and Vice Chairman to sign the accounts;
- c) authorise the Chairman to sign the Letter of Representation attached as Appendix C, and
- d) note the summary report from KPMG LLP, the Trust's auditors, attached as Appendix D.

Reference: JPG/EM/TA2

Report Number CT1109050-f

Shetland Charitable Trust

Trustees' report and consolidated
financial statements

Charity number SC027025

31 March 2011

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Chair's introduction

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

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

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

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

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

Bill Manson
Chairman

8 September 2011

Trustees' Report

Section 1: Reference and Administrative Details

Name Shetland Charitable Trust

Scottish Charity Number SC027025

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

Trustees

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

General Manager Dr Ann Black

Financial Controller Jeff Goddard CA, PhD, BSc

Bankers Bank of Scotland
117 Commercial Street
Lerwick
ZE1 0DL

Auditors KPMG LLP
37 Albyn Place
Aberdeen
AB10 1JB

Trustees' Report *(continued)*

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

Trustees' Report *(continued)*

Section 2: Structure, Governance and Management

Governing Document

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

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

Charitable Status

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

Trustees – Appointment, Induction and Training

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

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

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

Management and Administration

The Trust is managed and administered by a team of eight directly employed staff. The General Manager's role is to ensure that the charitable activities carried out by the Trust are carried out in furtherance of its purposes, represent value for money and complement the needs and aspirations of the community, as the primary beneficiaries of the Trust, all in accordance with the Trust Deed and the law. The Financial Controller is responsible for the effective management of the Trust's liquid resources. This includes ensuring that charitable status is retained and putting in place effective investment policies. Some specialist services are purchased from other providers, under various service level agreements.

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

Complementary Services

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

Trustees' Report *(continued)*

Subsidiary Companies

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

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

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

William Manson – Chair
Alastair Cooper
Caroline Miller

Risk Management

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

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

Disclosure of information to auditors

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

Trustees' Report *(continued)*

Section 3: Objectives and Activities

Objects of Trust (extracted from the Trust Deed)

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

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

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

Priorities

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

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

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

Trustees' Report *(continued)*

Shetland Islands Council

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

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

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

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

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

Grant Making Policy

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

Funded Bodies – Performance Monitoring

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

Trustees' Report *(continued)*

Financial Objectives

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

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

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

Budgets

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

Minutes

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

Section 4: Achievements and Performance

Service Plan

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

- looking after the Trust, by protecting the assets and keeping proper accounts (this is mostly achieved by Trustee monitoring and the operation of an appropriate system of Internal Controls);
- investing funds wisely, to earn money but also to maintain the Trust's capital value (investment performance for the year is reviewed in Section 5); and
- providing funding for additional services to the people of Shetland, beyond that which you would normally expect to receive from statutory agencies (see below).

During the year to 31 March 2011, the Trust provided grant assistance to the following organisations towards the cost of providing a range of social, leisure, cultural, heritage and environmental activities:

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

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

During the year, the Trust worked with the organisations funded to develop a system of service performance reporting. Trustees considered a progress report on service performance in November 2010, which set out, in detail, how the Trust's money makes a difference to people and communities. In the main, Trustees were satisfied that most organisations were performing satisfactorily against their stated targets, and there were no significant areas of concern.

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

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

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

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

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

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

The detail of how much money is spent on these charitable programmes is shown in tabular format on pages 10 and 11. The tables show six columns, the original budget, changes to the budget agreed by Trustees during the year, actual spend during the year and any variances at the year end. The final column gives a comparison with last year.

Financial Performance

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

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

Trustees' Report (continued)

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

Charitable Expenditure Year to 31 March 2011

	Original Budget £	Vire/ enhance £	Current budget £	Actual spend to 31 March £	year to date variance £	spend 2010 £
Trusts over £0.5m						
Shetland Amenity Trust	1,052,728		1,052,728	1,052,728	-	1,080,228
Shetland Arts Development Agency	696,038		696,038	696,038	-	773,376
Shetland Recreational Trust	2,518,550		2,518,550	2,518,550	-	2,781,550
Other Charitable Organisations						
Disability Shetland Recreation Club	12,641		12,641	12,641	-	12,641
Shetland Field Studies Service	-		0	0	-	37,206
The Swan Trust	48,900		48,900	48,900	-	48,900
VAS - New Shetlander	670		670	670	-	370
Shetland Churches Council Trust	54,075		54,075	54,075	-	54,115
Shetland Youth Information Service	188,840		188,840	188,840	-	188,840
Shetland Befriending Scheme	54,418		54,418	54,418	-	55,935
Citizens Advice Bureau	132,265		132,265	132,265	-	147,850
COPE Limited	154,967	175,000	329,967	329,967	-	154,968
Couple Counselling Shetland	12,000		12,000	12,000	-	12,000
Shetland Link Up	47,994		47,994	47,994	-	47,994
Shetland Link Up - Art Therapy	-		-	-	-	26,212
Voluntary Action Shetland	144,367		144,367	144,367	-	144,412
VAS - ICT Replacement	-	19,750	19,750	19,750	-	-
Festival Grants	30,000		30,000	30,000	-	30,000
Local Charitable Organisations	14,000		14,000	12,572	1,428	12,572
Womens Royal Voluntary Service	-	47,622	47,622	47,622	-	51,498
Cost of change (Trusts)	-		-	641	-641	25,059
Sub Total Charitable Organisations	5,162,453	242,372	5,404,825	5,404,038	787	5,685,726
Schemes						
Independence at Home Scheme	-		-	-	-	1,199
Community Development Grants	22,272	8,859	13,413	12,826	587	12,742
Community Support Grants	64,321	8,859	73,180	73,180	-	73,805
Arts Grant Scheme	35,000		35,000	26,715	8,285	29,217
Sheltered Housing Heating	25,500		25,500	25,500	-	26,010
Senior Citizens Clubs	23,000		23,000	17,809	5,191	18,439
Support to Rural Care Model	2,491,000		2,491,000	2,491,000	-	3,291,189
Social Assistance Grants	35,000		35,000	25,177	9,823	21,470
Buses for Elderly and Disabled	49,980		49,980	51,960	-1,980	48,000
Supported Employment	8,000		8,000	7,179	821	7,503
Sub Total Schemes	2,754,073	-	2,754,073	2,731,345	22,728	3,529,574

Trustees' Report *(continued)*

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

Total charitable expenditure and administration costs are shown before adjustment for pension adjustments under FRS 17 totalling £226,000, as detailed in Note 3 to the financial statements.

Section 5: Financial Review

Growth and Unrestricted Funds

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

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

Reserves Policy

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

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

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

Trustees' Report *(continued)*

Investment Performance

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

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

Stock Exchanges

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

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

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

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

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

Cash on Deposit

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

Subsidiary Companies

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

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

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

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

Trustees' Report *(continued)*

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

Decisions about Investments

When the Trustees make decisions about investing the Trust's capital, the law requires them to seek appropriate advice and act as reasonably prudently as commercial investors would. An investor is concerned with various criteria when investing money; these include rate of return (dividends / income / rent / interest earned), capital growth, and just how safe the money is. This applies whether the investments are on a Stock Exchange, or when they involve local assets. Investment, wherever it is made, involves using Trust funds wisely so as to produce income and to increase the value of those funds. To do this properly the Trust has to act commercially. It cannot "act charitably" towards its investments. Trustees reviewed their long term investment strategy in 2011.

Current Financial Position

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

Section 6: Plans For The Future

Trustees

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

Financial Position

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

Investment Strategy

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

WH Manson
Chair

8 September 2011

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

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

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

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

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

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

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

ABCD

37 Albyn Place
Aberdeen
AB10 1JB
United Kingdom

Independent auditor's report to the trustees of Shetland Charitable Trust

We have audited the group and charity financial statements ("the financial statements") of Shetland Charitable Trust for the year ended 31 March 2011 set out on pages 16 to 38. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the charity's trustees as a body, in accordance with Section 44 (1) (c) of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 10 of the Charities Accounts (Scotland) Regulations 2006. Our audit work has been undertaken so that we might state to the charity's trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity and its trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditor

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

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

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

Matters on which we are required to report by exception

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

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

DJ Watt

[date]

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

Consolidated statement of financial activities
for the year ended 31 March 2011

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

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

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

Trust statement of financial activities

for the year ended 31 March 2011

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

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

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

Consolidated balance sheet

at 31 March 2011

	Note	2011 £000	2010 £000
Fixed assets			
Tangible assets	5	30,748	29,853
Investments:			
Investments	6	178,793	180,583
Programme-related investments	7,8	2,631	2,481
		<u>181,424</u>	<u>183,064</u>
Total fixed assets		212,172	212,917
Current assets			
Stocks		42	36
Debtors	9	3,328	2,388
Cash at bank and in hand		8,802	7,610
		<u>12,172</u>	<u>10,034</u>
Total current assets		12,172	10,034
Creditors: amounts falling due within one year	10	(2,317)	(3,111)
		<u>9,855</u>	<u>6,923</u>
Net current assets		9,855	6,923
Total assets less current liabilities		222,027	219,840
Provisions for liabilities and charges	12	(1,138)	(1,147)
		<u>220,889</u>	<u>218,693</u>
Net assets excluding pension liability		220,889	218,693
Pension liability	15	(1,113)	(1,599)
		<u>219,776</u>	<u>217,094</u>
Net assets including pension liability		219,776	217,094
Represented by:			
Expendable endowment	13	244,681	238,182
Unrestricted income funds:	14		
General funds		(17,219)	(11,804)
Trading funds		(6,937)	(7,961)
Revaluation reserve		64	26
Minority interest		300	250
		<u>(23,792)</u>	<u>(19,489)</u>
Unrestricted income funds excluding pension reserve		(23,792)	(19,489)
Pension reserve	14	(1,113)	(1,599)
		<u>(24,905)</u>	<u>(21,088)</u>
Total unrestricted income funds		(24,905)	(21,088)
Total charity funds		219,776	217,094

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

WH Manson
Chairman

JH Henry
Vice-Chairman

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

Trust balance sheet

at 31 March 2011

	<i>Note</i>	2011		2010	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	5		10,701		11,571
Investments:					
Investments	6	178,793		180,583	
Programme-related investments	7,8	51,616		52,611	
			<u>230,409</u>		<u>233,194</u>
Total fixed assets			241,110		244,765
Current assets					
Debtors	9	2,559		1,312	
Cash at bank and in hand		4,454		4,865	
			<u>7,013</u>		<u>6,177</u>
Total current assets		7,013		6,177	
Creditors: amounts falling due within one year	10	(1,260)		(1,288)	
			<u>5,753</u>		<u>4,889</u>
Net current assets			5,753		4,889
Total assets less current liabilities			246,863		249,654
Creditors: amounts falling due outwith one year	11		(26,000)		(31,000)
			<u>220,863</u>		<u>218,654</u>
Net assets excluding pension liability			220,863		218,654
Pension liability	15		(1,113)		(1,599)
			<u>219,750</u>		<u>217,055</u>
Net assets including pension liability			219,750		217,055
Represented by:					
Expendable endowment	13		222,160		217,001
Unrestricted income funds					
General funds	14		(1,297)		1,653
Pension reserve	14		(1,113)		(1,599)
			<u>(2,410)</u>		<u>54</u>
Total unrestricted income funds			(2,410)		54
			<u><u>219,750</u></u>		<u><u>217,055</u></u>

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

WH Manson
Chairman

JH Henry
Vice-Chairman

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

Consolidated cash flow statement

for the year ended 31 March 2011

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

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

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

Notes to the financial statements

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

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

Basis of consolidation

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

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

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

Fund accounting

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

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

Incoming resources

Activities for generating funds

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

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

Turnover in Viking Energy Limited represents miscellaneous income.

Investment income

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

Notes (continued)

1 Accounting policies (continued)

Other incoming resources

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

Donated assets

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

Resources expended

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

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

Cost of generating funds

The cost of generating funds represents fund managers' fees.

Governance costs

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

Grants

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

Investments

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

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

Tangible fixed assets and depreciation

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

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

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

Notes (continued)

1 Accounting policies (continued)

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

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

Investment properties

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

Taxation

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

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

Pension costs

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

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

Stock

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

Cash and liquid resources

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

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

Notes (continued)

2 Incoming resources from generated funds – voluntary income

	Group 2011 £000	Charity 2011 £000	Group 2010 £000	Charity 2010 £000
Gifts and donations	-	-	-	-
	-	-	-	-

3 Cost of activities in furtherance of the charity's objects

Charitable expenditure

The group's charitable expenditure, which mainly comprises grants payable in respect of the year, is summarised below:

	2011 £000	2010 £000
General funds		
Payments to charitable organisations	5,404	5,686
Schemes	2,731	3,530
Direct schemes	1,770	1,814
One-off projects	434	425
Charitable grants repaid	(20)	(64)
	-----	-----
Total charitable grants	10,319	11,391
Support costs	518	590
Less pension adjustments under FRS 17	(226)	(45)
	-----	-----
Total charitable expenditure – general funds	10,611	11,936
	-----	-----
Expendable endowment		
Depreciation – see note 5	1,326	1,298
	-----	-----
Total resources expended on charitable activities	11,937	13,234
	=====	=====

Included within project expenditure are the Trust's Christmas grants to pensioners and Social Assistance grants, both of which are payable to individuals. All other grants are payable to organisations. Further details of the group's charitable expenditure are included in Section 4 of the Trustees' Report.

Support costs

Support costs for the year of £518,000 (2010: £545,000) principally represent administration expenses and are all deemed to be attributable to the group's charitable activities. Included within administration expenses is £337,000 (2010: £339,000) in respect of staff costs (see note 4).

Governance costs

Governance costs totalling £81,000 (2010: £79,000) comprise the costs associated with the Trust's compliance with charity regulation and good practice. They include £36,000 (2010: £34,000) representing an appropriate apportionment of salary costs together with trustees' expenses (see note 4) and audit fees of £24,000 (2010: £25,000).

Notes *(continued)*

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

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

4 Staff numbers and costs

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

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

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

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

Two employees (2010: one employee) received emoluments totalling between £60,000 and £69,999. Retirement benefits are accruing to these members of staff under a defined benefit pension scheme. No other employees received emoluments totalling in excess of £60,000 in either the current or previous financial year.

Two trustees, the chair and the vice-chair, received trustees' allowances totalling £7,500 (2010: £7,500) from the group during the year. Expenses totalling £2,785 (2009: £3,725) were reimbursed to 11 trustees (2010: 10 trustees) during the year.

Notes (continued)

5 Tangible fixed assets

Group	Land and buildings £000	District heating scheme infrastructure £000	Investment properties £000	Vessel and aircraft £000	Other £000	Total £000
<i>Cost or valuation</i>						
At beginning of year	25,434	16,389	16,986	865	1,121	60,795
Additions	-	456	95	-	3,717	4,268
Disposals	-	-	(344)	-	-	(344)
Revaluations	-	-	(1,586)	-	-	(1,586)
At end of year	25,434	16,845	15,151	865	4,838	63,133
<i>Depreciation</i>						
At beginning of year	18,670	11,580	-	321	371	30,942
Charge for year	1,085	241	-	34	83	1,443
At end of year	19,755	11,821	-	355	454	32,385
<i>Net book value</i>						
At 31 March 2011	5,679	5,024	15,151	510	4,384	30,748
At 31 March 2010	6,764	4,809	16,986	544	751	29,853

Land and buildings primarily consist of the site at Sullom Voe, plus the six rural care homes, previously operated by Shetland Welfare Trust, and donated to the Trust in 2007. The rural care homes have been previously funded by the Trust and the capital grant conditions applied to funding to Shetland Welfare Trust required any building owned by Shetland Welfare Trust to be transferred to the Trust when Shetland Welfare Trust ceased to operate (effectively 1 April 2006). These are specialised buildings in rural locations in Shetland without comparators, which mean that it is not possible to establish a meaningful valuation for them in their present use. The trustees therefore capitalised them at original cost, in line with the Trust's accounting policy for tangible fixed assets, which they believed to be a reasonable indication of their value at the date they were donated. The buildings continue to be used as care homes, in furtherance of the Trust's charitable objects, and as such are not held for investment purposes.

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

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

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

Notes (continued)

5 Tangible fixed assets (continued)

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

6 Managed funds

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

Notes (continued)

6 Managed funds (continued)

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

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

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

7 Programme-related investments

	Group		Charity	
	2011 £000	2010 £000	2011 £000	2010 £000
Equity (below)	1,795	1,440	50,780	51,570
Loans (note 8)	836	1,041	836	1,041
	2,631	2,481	51,616	52,611
	2,631	2,481	51,616	52,611

Notes *(continued)*

7 Programme-related investments *(continued)*

Equity - Group	Shares in subsidiary undertakings £000	Unlisted investments £000	Total £000
<i>Cost</i>			
At beginning of year	7,416	626	8,042
Additions	355	-	355
	<hr/>	<hr/>	<hr/>
Cost at end of year	7,771	626	8,397
	<hr/>	<hr/>	<hr/>
<i>Provisions</i>			
At beginning of year	6,001	601	6,602
Provided in year	-	-	-
	<hr/>	<hr/>	<hr/>
Provisions at end of year	6,001	601	6,602
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 March 2011	1,770	25	1,795
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2010	1,415	25	1,440
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Equity – Charity		Shares in subsidiary undertakings £000	
<i>Cost</i>			
At beginning of year			72,750
Additions			550
			<hr/>
Cost at end of year			73,300
			<hr/>
<i>Provisions</i>			
At beginning of year			21,180
Provided in year			1,340
			<hr/>
Provisions at end of year			22,520
			<hr/>
<i>Net book value</i>			
At 31 March 2011			50,780
			<hr/> <hr/>
At 31 March 2010			51,570
			<hr/> <hr/>

Notes (continued)

7 Programme-related investments (continued)

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

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

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

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

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

Notes (continued)

7 Programme-related investments (continued)

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

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

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

The assets and liabilities of the subsidiaries were:

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

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

8 Programme-related investments – Loans

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

Notes (continued)

8 Programme-related investments – Loans (continued)

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

9 Debtors

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

10 Creditors: amounts falling due within one year

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

11 Creditors: amounts falling due after more than one year

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

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

Notes *(continued)*

12 Provisions for liabilities and charges

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

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

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

13 Expendable endowment

	Group Total	Charity Total
	£000	£000
At beginning of year	238,182	217,001
Outgoing resources	(1,326)	(2,900)
Losses in the year	7,825	7,825
	<hr/>	<hr/>
At end of year	244,681	222,160
	<hr/> <hr/>	<hr/> <hr/>

Notes *(continued)*

14 Unrestricted income funds

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

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

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

15 Pension scheme

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

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

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

Notes (continued)

15 Pension scheme (continued)

Movements in present value of defined benefit obligation:

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

Movements in fair value of plan assets:

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

Income recognised in the statement of financial activities:

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

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

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

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

Notes *(continued)*

15 Pension scheme *(continued)*

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

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

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

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

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

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

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

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

History of plans

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

Balance sheet

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

Notes *(continued)*

15 Pension scheme *(continued)*

Experience adjustments

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

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

16 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.

SHETLAND CHARITABLE TRUST
Summary of the Movements on the Revenue and Capital Accounts for the Year Ended 31 March 2011

	2010/11 £ million	2010/11 £ million	2009/10 £ million	2009/10 £ million	2008/09 £ million	2008/09 £ million
Fund Managers						
Dividends and Interest	4.8	4.1	4.4		4.4	
Capital Movements	7.8	45.6	-44.7		-44.7	
Fees	-0.6	-0.2	-0.4		-0.4	
		12.0	49.5		-40.7	
Local Investments						
Ag. Loan Interest	0.1	0.1			0.1	
SLAP/SHEAP Profits	1.6	4.2	4.1		4.1	
Rents, Less Depreciation	0.9	1.0	1.3		1.3	
Interest on SLAP loans	-0.6	-0.3	-1.5		-1.5	
	<u>2.0</u>	<u>5.0</u>	<u>4.0</u>		<u>4.0</u>	
TOTAL INVESTMENT RETURNS	<u>14.0</u>	<u>54.5</u>	<u>-36.7</u>		<u>-36.7</u>	
Expenditure						
Charitable	-10.0	-11.4	-12.5		-12.5	
Administration	-0.6	-0.6	-0.6		-0.6	
	<u>-10.6</u>	<u>-12.0</u>	<u>-13.1</u>		<u>-13.1</u>	
TOTAL EXPENDITURE	<u>-10.6</u>	<u>-12.0</u>	<u>-13.1</u>		<u>-13.1</u>	
SURPLUS/(DEFICIT) FOR THE YEAR	<u>3.3</u>	<u>42.5</u>	<u>-49.8</u>		<u>-49.8</u>	
OPENING NET ASSETS	<u>217.1</u>	<u>176.3</u>	<u>219.4</u>		<u>219.4</u>	
Donated Properties						
New Donations	0.0	0.0	8.0		8.0	
Depreciation on Donated Properties	-0.9	-0.9	-0.9		-0.9	
MOVEMENT ON DONATED PROPERTIES	<u>-0.9</u>	<u>-0.9</u>	<u>7.1</u>		<u>7.1</u>	
MOVEMENT IN PENSION LIABILITY	<u>0.3</u>	<u>-0.8</u>	<u>-0.4</u>		<u>-0.4</u>	
CLOSING NET ASSETS	<u>219.8</u>	<u>217.1</u>	<u>176.3</u>		<u>176.3</u>	

SHETLAND CHARITABLE TRUST
Balance Sheet at 31 March 2011

APPENDIX B

	2010/11	2010/11	2010/11	2009/10	2008/09	2008/09
	£ million	£ million	£ million	£ million	£ million	£ million
Fixed Assets including Donated Properties		10.7		11.6		12.2
Managed funds		178.8		180.6		143.0
Local investments						
Equity	50.9		51.6		51.0	
Agricultural loans	0.8		1.0		1.2	
Current assets		51.7		52.6		52.2
Debtors	2.6		1.3		1.4	
Bank	4.4		4.9		5.3	
	<u>7.0</u>		<u>6.2</u>		<u>6.7</u>	
Less current liabilities						
Creditors	<u>-1.3</u>		<u>-1.3</u>		<u>-1.6</u>	
Net current assets		5.7		4.9		5.1
SLAP Borrowing		-26.0		-31.0		-35.5
Pension Liability		-1.1		-1.6		-0.7
		<u>219.8</u>		<u>217.1</u>		<u>176.3</u>
Financed by						
Reserves b/fwd		217.1		176.3		219.4
Surplus/deficit for year		3.3		42.5		-49.8
Movement on donated properties/pension liability		<u>-0.6</u>		<u>-1.7</u>		<u>6.7</u>
		<u>219.8</u>		<u>217.1</u>		<u>176.3</u>

General Manager: Ann Black
Financial Controller: Jeff Goddard

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If calling please ask for:
Jeff Goddard
Direct Dial: 01595 744991

Our Ref: JPG/ema/TA2/TA3
Your Ref:

Date: 08 September 2011

Dear Sirs

This representation letter is provided in connection with your audit of the group and charity financial statements of the Shetland Charitable Trust ("the Charity"), for the year ended 31 March 2011, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the state of the Group and parent Charity's affairs as at 31 March 2011 and of the Group and parent Charity surplus or deficit for the financial year then ended;
- ii. whether the financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- iii. whether the financial statements 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).

These financial statements comprise the Group and parent Charity balance sheet as at 31 March 2011, the Group and parent Charity statement of financial activities and the Group cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes.

The Trustees confirm that the representations they makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Trustees confirm that, to the best of their knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing themselves:

Financial statements

1. The Trustees have fulfilled their responsibilities, as set out in the terms of the audit engagement dated 18 May 2011 for the preparation of financial statements that:
 - give a true and fair view of the state of the Group's and parent Charity's affairs as at the end of its financial year and of the Group and parent Charity surplus or deficit for that financial year;
 - 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).

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Trustees in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which FRS 21 *Events after the balance sheet date* requires adjustment or disclosure have been adjusted or disclosed.

Information provided

4. The Trustees have provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Trustees for the purpose of the audit; and
 - unrestricted access to persons within the Group and the Charity from whom you determined it necessary to obtain audit evidence.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. The Trustees acknowledge their responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Trustees acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

The Trustees have disclosed to you the results of their assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

7. The Trustees have disclosed to you all information in relation to:
 - (a) Fraud or suspected fraud that it is aware of and that affects the Group and the Charity and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the Group's and Charity's financial statements; and
 - (b) allegations of fraud, or suspected fraud, affecting the Group's and Charity's financial statements communicated by employees, former employees, analysts, regulators or others.
8. The Trustees have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements. Further, the Trustees have disclosed to you and have appropriately accounted for and/or disclosed in the financial statements in accordance with UK Generally Accepted Accounting Practice all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
9. The Trustees have disclosed to you the identity of the Group's and the Charity's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with FRS 8 *Related party disclosures*.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Trustees understand them and as defined in FRS 8.

10. The Trustees confirm that:

- (a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Group's and the Charity's ability to continue as a going concern as required to provide a true and fair view.
- (b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Group and the Charity to continue as a going concern.

11. On the basis of the process established by the Trustees and having made appropriate enquiries, the Trustees are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with their knowledge of the business.

The Trustees further confirm that:

(a) all significant retirement benefits, including any arrangements that are:

- statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- funded or unfunded; and
- approved or unapproved,

have been identified and properly accounted for;

(b) all settlements and curtailments have been identified and properly accounted for; and

(c) the change from Retail Prices Index to Consumer Prices Index for pension increases has been appropriately accounted for as a change in benefit in line with the Urgent Issues Task Force Abstract 81 and the Local Authority Accounting Panel's Bulletin 89.

This letter was tabled and agreed at the meeting of the Trustees on 8 September 2011. In addition, the Trustees confirm that the Trust's financial controller has delegated authority to provide updated information in respect of these representations to the date of issuance of the audit opinion.

Yours faithfully,

Chair of Trustees

Appendix A to the Trustees' Representation Letter of Shetland Charitable Trust: Definitions

Financial Statements

A complete set of financial statements comprises:

- Group and parent Charity balance sheet as at the end of the period;
- Group and parent Charity a statement of financial activities for the period;
- Group cashflow statement for the period
- notes, comprising a summary of significant accounting policies and other explanatory information.

Material Matters

Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related party

A party is related to an entity if:

- (a) directly, or indirectly through one or more intermediaries, the party:
 - (i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
 - (ii) has an interest in the entity that gives it significant influence over the entity; or
 - (iii) has joint control over the entity;
- (b) the party is an associate (as defined in FRS 9 *Associates and Joint Ventures*) of the entity;
- (c) the party is a joint venture in which the entity is a venturer (as defined in FRS 9 *Associates and Joint Ventures*);
- (d) the party is a member of the key management personnel of the entity or its parent;
- (e) the party is a close member of the family of any individual referred to in subparagraph (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

Related party transaction

A transfer of assets, or liabilities or the performance of services by, to or for a related party irrespective of whether a price is charged.



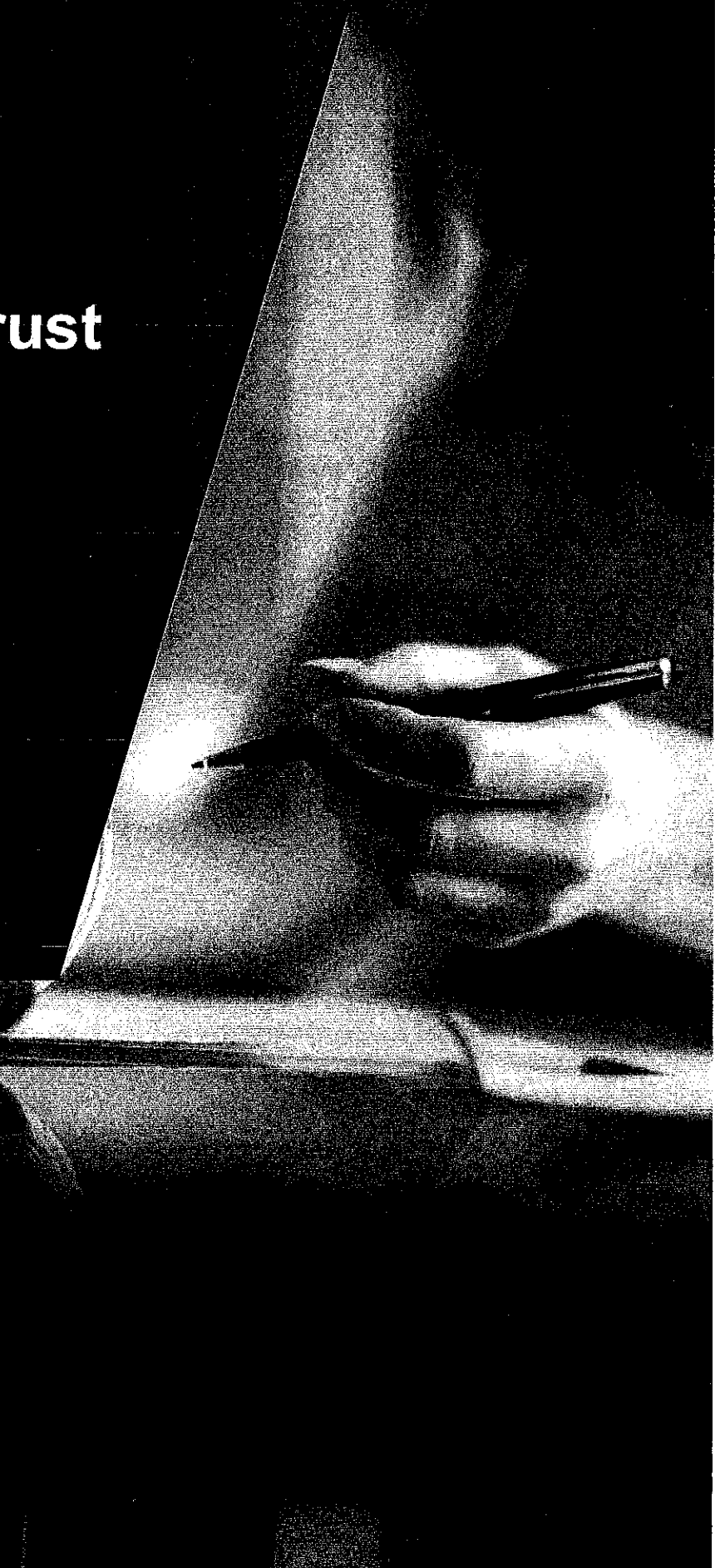
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Shetland Charitable Trust

Audit highlights memorandum and
management letter

Year ended 31 March 2011

1 September 2011



Contents

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Introduction

Background

The purpose of this report is to set out certain matters which came to our attention during the course of our audit of the financial statements of Shetland Charitable Trust ("the charity") for the year ended 31 March 2011.

Objective of our audit

Our audit work is designed to consider whether the group and parent charity financial statements

- give a true and fair view of the state of the group's and parent charity's affairs as at 31 March 2011 and of the group and parent 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 properly prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

We have reported separately on our specific responsibilities in respect of our work with the charity's subsidiary companies, as well as on our audit of Viking Energy, the partnership entered into with SSE Viking Limited.

Our objective is to use our knowledge of the group and charity gained during our routine audit work to make useful comments and suggestions for you to consider. However, you will appreciate that our routine audit work is designed to enable us to form the above audit opinions on the financial statements of the charity and should not be relied upon to disclose errors or irregularities which are not material in relation to those financial statements.

Audit progress and status

Our work on the financial statements is now largely complete, subject only to your approval processes and receipt of the signed management representation letter.

We anticipate issuing an unqualified audit opinion on the group and parent charity financial statements for the year ended 31 March 2011, following their approval by the Trustees.

Independence

KPMG conforms to the highest governance standards at all times and ensures that any additional services are approved by the Trustees as part of agreeing any engagement to ensure transparency. ISA 260 *Communication with those charged with governance* requires us to communicate at least once a year regarding all relationships between KPMG and the charity that may be reasonably thought to have bearing on our independence.

We have made enquiries of all KPMG teams providing services to the group and are not aware of any relationships which represent matters that have occurred during the financial year on which we are to report. During the year ended 31 March 2011, we have provided the following services in addition to audit services:

- Corporation tax compliance services to the charity's subsidiary companies, Shetland Heat Energy and Power Limited, Shetland Leasing and Property Development Limited, and Viking Energy Limited.

Confirmation of our independence is given in Appendix two.

Audit differences

Under the requirements of ISA 260 *Communication with those charged with governance*, we are required to report any adjusted audit differences arising from our work. There were a number of minor amendments to the charity financial statement disclosures, including the presentation of the FRS 17 'Retirement benefits' disclosures for the year.

In respect of our work on the subsidiary companies, there was one significant adjustment in the Shetland Leasing and Property Development Limited financial statements. This was to process the downward revaluation in respect of phase one of the Scatsta project, following a valuation obtained from the external valuer as at 31 March 2011.

We are also required to report any unadjusted audit differences, other than those that are "clearly trivial" (if there are any) to the Trustees. There are no such differences this year.

Acknowledgement

We would like to take this opportunity to thank the general manager, the financial controller and all other staff we met during our audit for their continued co-operation and assistance.

Highlights memorandum

This section of our report summarises the main features of the financial statements and key movements from the prior financial year.

Consolidated statement of financial activities

The consolidated financial results of the charity for the year ended 31 March 2011 are shown in the statement of financial activities ("SOFA") on the right. Key movements from the prior year are noted below.

Incoming resources

Incoming resources from generated funds

Incoming resources from generated funds increased by £372,000 from the prior year, principally due to an increase in the turnover of the subsidiary companies. In particular, turnover in Shetland Heat and Energy Power Limited increased by £320,000 as a result of price increases.

Other incoming resources

Rental income from the Sullom Voe terminal remains strong, with other incoming resources not materially different from prior years.

Resources expended

Costs of generating funds

There was a significant increase of £1,737,000 in the costs of generating funds over the previous year. The principal reason for this was the downward revaluation in the phase one of the Scatsta development within Shetland Leasing and Property Development Limited, following its valuation as at 31 March 2011. This downward revaluation accounted for £1,370,000 of the increase in these costs.

Charitable activities

The expenditure on charitable activities has continued to decrease, in line with the Trustees' aims within their three-year budget strategy. Expenditure on charitable activities, was constrained below £12.0 million for the first time. This includes an annual depreciation charge of £1,326,000 charged against the expendable endowment. The reduction in expenditure was aided by the one-off credit of £290,000 to the operating result for the year as a result of the change in the measurement of future pension increases from RPI to CPI. Further information on this is provided in the section on accounting matters.

Other recognised gains and losses

In 2010-11, the stock market investments were overall more stable than in the previous years, resulting in other gains and losses of £8,085,000, down from the significant gains of £46,044,000 experienced in 2009-10.

Consolidated Statement of Financial Activities		
Year ended 31 March 2011		
	2011	2010
	£000	£000
Incoming resources		
<i>Incoming resources from generated funds</i>		
Activities for generating funds	4,479	4,181
Investment income	4,824	4,750
<i>Other incoming resources</i>		
Rental income	1,287	1,141
Other income	66	167
Total incoming resources	10,656	10,239
Resources expended		
Costs of generating funds	4,041	2,304
Charitable activities	11,937	13,234
Governance costs	81	79
Total resources expended	16,059	15,617
Net incoming (outgoing) resources before other recognised gains and losses	(5,403)	(5,378)
Other recognised gains and losses	8,085	46,044
Net movement in funds	2,682	40,666
Reconciliation of funds:		
Balance brought forward at 1 April	217,094	176,428
Balance carried forward at 31 March	219,776	217,094

Source: draft financial statements

Highlights memorandum (continued)

Consolidated balance sheet

Fixed assets

Fixed assets have increased by £895,000, principally due to the continued investment in property being made by Shetland Leasing and Property Development Limited, offset by the annual depreciation charge.

Investments

As noted previously, the stock market investment portfolio was more stable in performance throughout 2010-11, resulting in no significant change in the investment balances by the year end.

Net current assets

Overall, net current assets have increased by £2,932,000. Within debtors, the Trust provided programme-related loans of £827,000 in the year, which explains the increase in the balance in the year.

The reduction in creditors is principally due to the lower creditors balance within Viking Energy Limited, which had unusually high balances at 31 March 2010 due to the initial set-up and invoicing within the company at that time.

The creditors balance within the charity shows no significant movement year on year.

Pension liability

As a result of actuarial gains of £260,000 experienced on the defined benefit pension scheme during the year, plus the £290,000 past service credit due to the change from RPI to CPI for pension increases, the Trust has a pension liability of £1,113,000 on its balance sheet as at 31 March 2011. The FRS 17 valuation is dependent on a number of actuarial assumptions used in the preparation of the Trust's FRS 17 report and these are explained within note 15 to the financial statements.

Consolidated balance sheets at 31 March 2010 and 2011		
	2011	2010
	£000	£000
Fixed assets		
Tangible assets	30,748	29,853
Investments	181,424	183,064
	212,172	212,917
Current assets		
Stock	42	36
Debtors	3,328	2,388
Cash at bank	8,802	7,610
	12,172	10,034
Creditors: amounts falling due within one year	(2,317)	(3,111)
Net current assets	9,855	6,923
Provision for liabilities and charges	(1,138)	(1,147)
Net pension liability	(1,113)	(1,599)
Net assets	219,776	217,094
Funds		
Expendable endowment	244,681	238,182
Unrestricted funds – general fund	(23,792)	(19,489)
Unrestricted funds – pension reserve	(1,113)	(1,599)
Total funds	219,776	217,094

Source: draft financial statements

Audit and accounting issues

Accounting for retirement benefits

The charity accounts for its share of the Shetland Islands Council Pension scheme ("SICP") as a defined benefit plan under FRS 17 'Retirement benefits.' The report from the actuary on FRS 17 shows a deficit of £1,113,000 on the charity's share of the SICP at 31 March 2011, compared to a deficit of £1,599,000 at 31 March 2010. The actuarial valuation has been prepared based on a number of assumptions, the key ones being inflation and discount rates, which determine the value of the obligation and therefore the net asset or liability included on the balance sheet at the year end. The actuary provides valuations for all members of the SICP using similar assumptions. As part of our audit, we have reviewed the assumptions against KPMG's central assumptions and have found them to be within our tolerance levels. Whilst we recognise that management rely on the expertise and experience of the actuary when selecting assumptions for the calculation, management and Trustees must ensure that these are reasonable for use for the charity's participation in the pension scheme.

RPI/CPI

The financial statements include a gain of £290,000 as a result of a change in the measure of future pension increases. This is an accounting consequence of the announcement by the UK Government during in summer 2010 that public sector pension increases would be measured at the Consumer Prices Index ('CPI') rather than the Retail Prices Index ('RPI').

Historically, CPI has been 0.5% to 1.0% lower than RPI which means that future pension increases are anticipated to be lower than originally estimated, resulting in a long term benefit to the charity. There are two accounting issues in relation to this: firstly how the change is recognised (as part of the operating result or through reserves) and secondly, when this change is recognised.

Method of recognition

The accounting for the change in pension increases depends on whether it is considered to be a change in employee benefits or a change in FRS 17 assumptions and is determined by whether the charity had either a legal or constructive obligation to pay pension increases at RPI (prior to the Government announcement). The CIPFA Local Authority Accounting Panel issued a bulletin in April 2011 providing guidance to employers within local government pension schemes, considering the generic nature of evidence available to all employees of local government pension schemes. This concluded that where there was no legal obligation, in general, there was sufficient evidence of a constructive obligation to increase pensions at RPI. This obligation arises mainly from the fact that communications with employees would have created an expectation of pensions increasing by RPI. Management agreed to follow this guidance in the preparation of the charity's FRS 17 valuation report prepared by the actuaries. Accordingly, the change in pension assumptions has been accounted for as a change in employees' benefits and reflected in the financial statements as a credit to (i.e. reduction in) staff costs in the year.

Timing of recognition

The impact of the change in pension increases is accounted for in the period when there has been a change in obligation. This has been accounted for in 2010-11 on the basis of communications with members during the year resulting in a change in their expectations.

Corporate governance

Governance framework

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.

In recent years, the charity has been in discussion with the Office of the Scottish Charity Regulator over general issues regarding the governance of the Trust, including the need to evidence independence and compliance with Section 66 of the Charities and Trustee Investment Act 2005. A Governance Review Group was set up in February 2009 to develop proposals which would meet the needs of the Trust and the approval of OSCR. The Governance Review Group's recommended model was presented to a meeting of Trustees in February 2010. At that meeting, Trustees deferred a decision on the final structure of the Trustee body.

After taking further legal advice, new proposals are being worked up and which will be presented to Trustees in due course.

Risk management statement

The Statement of Recommended Practice for charities ('SORP') requires the Trustees to disclose that a policy in place in relation to risk management, that a risk review has been undertaken in the year, as well as details of the risk policies and processes.

The disclosures in the trustees' report highlights that a review was undertaken during 2010-11 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, with priority being given to dealing with any issue which has a high likelihood of occurring and a significant impact on service delivery should it occur. Only the two "red" risks were identified, neither of which were in the "catastrophic" category. Both were in the area of conflict of interest and compliance with charity law, which is an area which is under review.

We are satisfied that the disclosures in the Trustees' report meets the requirements of the SORP in terms of risk management.

Reserves policy

The reserves policy of the charity as set out in the Trustees' report is as follows:

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

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

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

We consider this policy meets the requirements of the SORP in providing identification of the unrestricted reserves available to the charity for use in a manner consistent with its charitable objectives.

Appendix one

Matters for future consideration

IFRS for public benefit entities

The Accounting Standards Board ('ASB') continues to support the need for charities to have their own accounting framework. In October 2010, the ASB released an Exposure Draft confirming the SORP for Charities will be retained although it believes a modified version of IFRS for small and medium sized entities ('FRSME') is most sustainable in the long run. This is likely to take the shape of an IFRS for public benefit entities. A useful summary of the document is included on the ASB website.

http://www.frc.org.uk/documents/pagemanager/asb/Future_of_UK_GAAP/FRED_Oct_2010/Key%20Facts2010_web%20optimised.pdf

The progress of these changes, along with the wider raft of improvements to IFRS have been slowed by the recent economic problems – which meant introducing new standards would have been an additional burden.

The consultation process for the FRSME finished on 30 April 2011 and the ASB considered the various comment letters at its meeting on 26 May 2011 with further consideration on the issues arising to be considered later in 2011. The current planned effective date for the standard is July 2013; at this point UK GAAP will be retired. It is possible for the IFRS for Public Benefit Entities to follow this implementation date, albeit with a later consultation start date. We will update the directors on our thoughts and invite your feedback.

Charities tax legislation

The 2010 Finance Act included a number of tax announcements relevant to charities. We have not identified any that will have a significant impact on the charity. As previously reported, the UK tax exemptions available to a charity require that all income is applied for charitable purposes only. If a charity incurs non-charitable expenditure a tax liability may be triggered. Whilst there have been no specific changes to legislation, we have experienced HM Revenue & Customs ('HMRC') increasing their activity in this regard.

OSCR reporting

OSCR is intending to introduce a system of integrated reporting for Scottish charities. Originally intended to be introduced from April 2011, this has been delay until later in the year to allow for further testing. The system will include:

- OSCR Online – a new service that will allow completion of the annual reporting requirements and submission of financial statements online;
- a revised monitoring programme – including a streamlined annual return form and a revised supplementary monitoring return form; and
- an enhanced Scottish Charity Register – that will show more explicitly when charities have filed their documents late and will graphically display financial highlights for all.

Appendix two

Independence confirmation

Private & confidential

The Trustees
Shetland Charitable Trust
22-24 North Road
Lerwick
Shetland
ZE1 0NQ

Dear Sirs

Professional ethical standards require us to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of David Watt and the audit team. This letter is intended to comply with this requirement. We have considered the fees paid to us by the charitable company and its related entities for professional services provided by us during the reporting period.

We are satisfied that our general procedures support our independence and objectivity except for those detailed below where additional safeguards are in place.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, audit directors and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings. Our Ethics and Independence Manual is fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

Please inform me if you would like to discuss any of these aspects of our procedures in more detail. There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the trustees.

Significant facts and matters that may bear on independence and objectivity

Significant facts and matters including those related to the provision of non-audit services that could bear upon our independence and objectivity, are set out below.

During the year ended 31 March 2011, we have provided corporation tax compliance services totalling £11,000 to the charity's subsidiary companies in addition to our audit services.

In summary, in the light of the above safeguards, our assessment is that the above matters have been properly addressed in accordance with APB Ethical Standards and do not threaten our objectivity or independence.

Confirmation of audit independence

We confirm that, as of 1 September 2011, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of David Watt and the audit staff is not impaired.

This report is intended solely for the information of the trustees and should not be used for any other purposes.

Yours faithfully

KPMG LLP



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REPORT**To:** Shetland Charitable Trust

8 September 2011

From: Financial Controller

Report: CT1109051

**INVESTMENT MONITORING – SHETLAND LEASING AND PROPERTY
DEVELOPMENTS LIMITED (SLAP)****1 Introduction**

- 1.1 This report is intended to provide Trustees with information needed to be able to monitor the Trust's investment in SLAP. SLAP has generated profits before gift aid and deferred tax of £1.4 million in 2010/11 on an investment portfolio of £15.6 million. This has added value to the SCT group.
- 1.2 As a charity, the Trust can only make investments that HM Revenue & Customs (HMRC) have approved as 'qualifying', as defined in Schedule 20, Income and Capital taxes Act 1986. HMRC have agreed that the Trust's investment in SLAP is a qualifying investment provided that investment is made to make money, i.e. on a 'commercial' basis. Trustees have decided that this condition will be best fulfilled if the Directors of SLAP ensure that each investment is made on a commercial basis. I am content that the current returns made by SLAP on its portfolio are commercial.
- 1.3 The last annual investment monitoring report was presented to Trustees on 8 September 2010 (min ref CT58/10). Since then, Trustees have received a progress report on SLAP on 24 March 2011 (min ref CT19/11).
- 1.4 The purpose of this report is to give a little "flesh on the bones" for SLAP and in particular attempt to present the information in a "user friendly" manner. I find that the statutory accounting format is not particularly helpful when looking at a charity with a diverse range of investment activity. The statutory company accounts for companies that make returns to a charity often fail to reveal (easily) the true level of activity and profit.

2 Shetland Leasing and Property Developments Ltd

2.1 SLAP is a wholly owned subsidiary of the Trust; purchasing, developing and letting various properties and assets throughout Shetland. The accounts to 31 March 2011 show net assets of £48.5 million, which includes loans of £26 million to Shetland Charitable Trust.

2.2 The Board of Directors are:

Mr J H Henry (Chair)
Mr W H Manson (Vice Chair)
Mr A J Cluness
Mr A Doull
Mr A G L Duncan
Mrs I J Hawkins
Mr R Henderson
Mrs C H J Miller

2.3 The operating profit for year to 31 March 2011 is £1,404,894. After making a Gift Aid payment to the Trust of £2,709,472 and allowing for the movement in deferred tax, the final reported loss for the year is £1,306,373. As I have stated in 1.4 above, I do not think the statutory format tells the whole story. I have set out the profit and loss in a "user friendly" format, in the table below:

	2010/11	2009/10
	£	£
Operating income	2,636,109	2,756,269
Interest Receivable	599,037	262,295
Operating expenses etc	(1,830,252)	(247,346)
Operating profit	1,404,894	2,771,218
Gift Aid	(2,709,472)	(3,828,582)
Deferred Tax	(1,795)	322,746
Reported (loss) for the year	(1,306,373)	(734,618)

2.4 Trustees will note that operating expenses have increased from £272,346 in 2009/10 to £1,830,252 in 2010/11. Most of the increase is due to including a figure of £1.37 million as the first amortising down of the leasehold value of Scatsta. This needs to be set against the £4.35 million recovered to date as rent.

2.5 Gift Aid is treated as an expense in the statutory format. The Gift Aid payment in 2010/11 means that neither SLAP nor the Trust will pay tax on SLAP's taxable profits generated in 2009/10.

2.6 SLAP's property portfolio is set out in Appendix A. SLAP also has assets under construction at 31 March 2011, which is expenditure on the new offices at the North Ness, and the second phase of the redevelopment of Scatsta Airport (a new Air Traffic Control Tower

and an extended and refurbished terminal building). There are two leasing assets, which are a Britten Norman Islander aeroplane and a vessel, the Moder Dy. Both are leased to Shetland Islands Council.

3 Business Review

- 3.1 SLAP bought the ex-WAG site at the North Ness a few years ago and Hunter & Morrisons are on site after winning the contract to build new offices there. The total cost of the whole project, including land costs, demolitions, legal and supervision fees, as well as the construction contract is £7 million. Shetland Islands Council has agreed to take a 20 year lease on the building. Hunter & Morrisons have been progressing very well with the building work.
- 3.2 SLAP completed a £3.5 million investment in Phase 1 of the re-development of Scatsta airport. A much larger hangar was built to accommodate the larger helicopters now in use, the original hangar was refurbished and the taxiways and apron were substantially resurfaced and extended. DITT have won the contract for Phase 2 of the works and are on site. This phase will include the construction of a new air traffic control tower and the extension and refurbishment of the terminal building, with a total budget of £4.5 million. SLAP's return on its investment in these buildings comes as rent under a lease to BP, who are acting on behalf of the Integrated Aviation Consortium, a joint oil industry body that oversees, and pays for, the operations at Scatsta.
- 3.3 During 2010/11, SLAP sold Laxfirth slaughterhouse on 7 April 2010, with the lairage being sold separately on 1 June 2010. SLAP received payment for the Brown's Road site on 21 July 2010. The Graven Oil Depot was sold on 15 November 2010. The Staney Hill Marts was sold on 25 March 2011.

4 SLAP (Trading) Ltd

- 4.1 SLAP (Trading) Ltd was a wholly owned subsidiary of SLAP Ltd. All activity in SLAP (Trading) has come to an end, and the company had no assets or liabilities as at 31 March 2011. The company was wound up on 21 May 2011.

5 Financial Implications

- 5.1 The long term financial planning for the Trust assumes that the local economy investments will generate an annual return of around 5% above inflation. Clearly any investments that do not achieve that return will have a negative impact on the financial health of the Trust and ultimately will reduce the annual amounts that can be paid out in charitable disbursements if the real value of the Trust is to be maintained. On the other hand, consistent returns at or above that level will benefit the Trust financially. There is a second indirect

benefit to the community of successful local investments which stimulate the Shetland economy.

- 5.2 Decisions taken in 2002 meant that SLAP and SLAP (Trading) ceased to offer finance directly to businesses. The process of reconfiguring the companies to concentrate on SLAP's core property development and asset leasing activities is complete. Although painful lessons were learnt in the five years around the millennium, SLAP has settled down to generate secure returns for the Trust. The net assets of SLAP plus cumulative profits to date now exceeds the £70 million invested in SLAP by SCT since 1981.
- 5.3 SLAP does not retain its profits, it pays them over to Shetland Charitable Trust as Gift Aid. This mechanism means that neither body pays tax on SLAP's profits. It also means that SLAP is carrying a deficit in its profit and loss reserve which was recognised in 2000 and 2002. This is now a presentational effect only and the Directors have agreed a proposal to eliminate the deficit. It is proposed to cancel half of SLAP's shares. Trustees will be formally asked to agree this at the next Trustee meeting. There is no effect on SLAP's net assets (value) as can be seen below:

	Current Balance Sheet £million	Proposed Balance Sheet £million
Reserves	(20)	15
Shares	<u>70</u>	<u>35</u>
Net Assets	<u>50</u>	<u>50</u>

The Trust is not worse off, it will still hold 100% of the shares of a £50 million company. The current presentation includes negative reserves, which is not helpful when dealing with third parties.

6 Conclusions

- 6.1 SLAP's property and leasing portfolio had another profitable year in 2010/11. Investments over the last few years (Scatsta Phase 1, Solarhus, and the Gutters Hut) along with those planned for the next two years (North Ness Offices and Scatsta phase 2) will result in a doubling of SLAP's property portfolio and the rental income thereon.
- 6.2 Investments in the local economy that successfully generate good and stable returns also benefit the community as a whole.

7 Recommendation

- 7.1 Trustees are asked to note the contents of this monitoring report.

Financial Controller
Shetland Charitable Trust
Our Ref: JPG/em/C11

Report No: CT110951
Date: 18 August 2011

APPENDIX A

SLAP Properties

March 2011

Property	Description	Tenant
Blacksness Industrial Estate	Two Industrial Units	Trou Acquaculture Scalloway Handling
66 Commercial Road	Office	Short Term let to SIC for Shetland Telecom
68 Commercial Road	Engineering Wholesaler	L.E.S.S
Commercial Road	Warehouse Workshop	HNP
72 Commercial Road	Land & Redundant Buildings in poor condition	
Fetlar Camp Site	Camp Site	Shetland Islands Council
Greenhead Base Lerwick	Port/Industrial facility	SBS, SIC and Scomi Oil Tools
FE College Phase 1 & 2 Gremista	College Buildings	Shetland Islands Council
Gremista Industrial Estate, Lerwick, Site 1	Retail unit site	G & S Flooring
Heylor Fish Factory, Heylor, Ronas Voe	Fish Factory	Vacant, sale agreed to Blueshell Mussels
Kanterstead Road, Lerwick Drycleaners	Shop Site	Mr & Mrs A J T Watt
Kanterstead Road, Lerwick Takeaway	Shop Site	Mr S Li
Lochside Stores Lochside, Lerwick	Shop	Mr M Johnson
North Atlantic Fisheries College College, Scalloway	College	Shetland Islands Council
North Staney Hill	Land	Land Bank, Housing Sites for SIC/Educational Use

APPENDIX A

Property	Description	Tenant
NE Farmers, Stoney Hill Lerwick	Wholesale Warehouse	Harbro Ltd
2 North Ness	Offices	Millgaet Media Ltd
3 North Ness BioSolar Office	Office	Shetland Islands Council, HIE Shetland as Sub-Tenant
7 North Ness Gutters' Hut	Offices	Garrick Accountancy, Shaw Marketing, Viking Energy Ltd, Shetland Islands Council
Sandness Spinning Mill, Sandness	Factory Unit	Jamieson Spinning Ltd
Sandwick Woollen Mill, Hoswick, Sandwick	Factory Unit	Laurence Odie (Knitwear) Ltd
Scatsta Airport	Leased Land and Buildings	Intergrated Aviation Consortium (BP)
Scalloway Woollen Mill Park	Land	Sale agreed to Scalloway Museum
Sellaness Industrial Buildings Factory (Former Crab Factory)	Industrial Building	Mr A Mckimm
Shetland Business Innovation Centre, Gremista	Business Units	SIC Train Shetland
Tourist Information Office 107 Commercial Street	Tourist Information Office	Visit Scotland/Scottish Government
Walls Bakery and tea rooms, Walls	Bakery	C & A Hodge
Walls Shop, Walls	Shop	Mr & Mrs Smith
Weathersta Industrial Complex, Weathersta, Brae	3 workshops plus a substantial yard area	Hjatland Seafarms Ltd
Whalsay Fish Factory, Whalsay	Fish Factory	Vacant. Let agreed to Norpak Limited
WAG Site	Development Site	SIC on completion

REPORT

To: Shetland Charitable Trust

8 September 2011

From: Financial Controller

Report: CT1109052

Three Year Budgeting

1. Introduction

- 1.1 The Trust's long term financial strategy is to use the average investment growth above inflation on the Trust's reserves to support annual expenditure, and so to be able to pass on the reserves preserved against inflation to future generations (Min Ref 39/11). This financial strategy is known as "self-sustainable use of reserves" or sometimes simply "self-sustainability".
- 1.2 Trustees have agreed a financial plan for 2012/13, 2013/14, 2014/15, based on the self-sustainability approach, of setting overall expenditure budgets of £11 million for each of those years (Min Ref 39/11).
- 1.3 Trustees have agreed to look at introducing three year funding packages for the funded bodies once spending has been reduced to the self-sustaining level. Now that this objective has been achieved, I am recommending the introduction of three year funding packages.

2. Background

- 2.1 Over the last few years, several of the bodies who receive funding from the Trust have requested three year funding packages. Forward funding agreements would allow most or all of the funded bodies to better plan ahead and remove the annual uncertainty over budget levels. In some areas of activity external funds might become accessible due to the prospect of three year matching funding being available.
- 2.2 Charity auditors are increasingly concerned with looking at future viability of charities. Trustees of this Trust have generally indicated in the past that the funded bodies can expect any changes in the future that might affect their funding from Shetland Charitable Trust to be orderly. This gives considerable comfort to most of the

Trustees/Directors/Staff of the bodies we fund, but does not completely satisfy issues around viability. Three year funding packages would be very helpful indeed in demonstrating future viability to regulators, auditors and other interested parties.

- 2.3 Issues around three year funding packages have been discussed by Trustees several times over the last ten years. Generally, Trustees have accepted that there are advantages to the funded bodies and the Shetland charity/voluntary sector as a whole. However, Trustees have also felt unable to make future commitments while annual spending has exceeded the level compatible with the "self-sustainability" long term financial strategy.
- 2.4 The Trust has gone through three major phases of reviewing everything it does over the last eight or nine years. Overall annual expenditure has reduced from an unsustainable £16 to £18 million to the current £11 million. This has been achieved in a variety of ways, but most importantly, without service meltdown. The reason for not considering three year funding packages no longer applies.
- 2.5 Staff at Shetland Charitable Trust have discussed the general principle of introducing three year funding packages with the larger funded bodies. There is general support for this concept.

3. Proposal

- 3.1 It is proposed that Trustees agree now to ask the funded organisations to produce cash standstill budgets for each of the next three years, to be considered in the normal budget cycle, starting with 2012/13.
- 3.2 Having gone through the reviews and changes described in 2.4 above, I will recommend that a period of stability will help the funded bodies. This is even more important in the present financial climate, where public funding streams are shrinking, both in Shetland and beyond. This stability can best be achieved by setting cash standstill budgets for the next three years, effectively repeating the 2011/12 budget in 2012/13, 2013/14 and 2014/15.

4. Practical Considerations

- 4.1 It is not proposed to change the current monitoring regime. The funded bodies will need to account for what they do with Trust funding in the same way as at present. The Trustees of this Trust will continue to receive Trust management accounts; funded bodies' service performance monitoring reports; and other appropriate reports. Staff at the Trust and also at the Council's Grants Unit, through the Service Level Agreement, will continue to do as they do now.
- 4.2 The change does mean that the annual budgeting exercise will not be repeated each year, which will free up staff resources for other purposes, both within the funded bodies and here at the Trust.

4.3 The Trust's budget for this year can be summarised as follows:

	£million
Running Cost Grants & repeatable project Expenditure	8.6
Management & Administration Costs	<u>0.5</u>
Sub-total: recurring items	9.1
Planned Maintenance	1.6
One Offs	<u>0.3</u>
	<u>11.0</u>

The budgets that make up the sub-total of recurring items at £9.1 million, can simply be repeated for three years, resulting in a cash standstill.

4.4 Planned Maintenance, by its very nature, will vary from year to year. The budget for 2011/12 is expected to reflect a peak year, with lower budgets likely to be required for each of the next three years. Trustees have already set a one-off budget of £200,000 for next year, 2012/13, to be used to fund the repair of the roof at the Scalloway Pool. All this means that the total budgets might come in just under £11 million. I propose that any available capacity, however small, is used to start to fund an asset replacement reserve. This is one of the future funding problems that will face the Trust, and it is prudent to make provision where possible. I also suggest that any underspends are added to this reserve.

4.5 There are still some details to be worked out. For example, should there be some mechanism for the funded bodies to move budgets/Trust funding between years? However, officers can progress this further work with the funded bodies, if Trustees agree to accept my recommendations today.

5. Conclusions

5.1 Several funded bodies have requested that this Trust moves towards providing three year funding packages. Trustees have previously accepted that there are advantages in doing so.

5.2 Trustees have previously decided not to consider three year funding packages when Trust charitable expenditure exceeded the "self-sustaining" amount.

5.3 Trust expenditure is now compatible with the "self-sustaining" amount and I now recommend that Trustees agree to offer three year funding packages.

6. Financial Implications

6.1 There are no new financial implications for the Trust that would arise from accepting my recommendations in this report. Trustees have already agreed to limit overall charitable expenditure to £11 million for each of the next three years, and this report does not propose to change that total.

7. Recommendations

7.1 I recommend that Trustees agree:

- (a) to adopt three year funding packages for all organisations it currently funds, subject to the normal application process;
- (b) to repeat the 2011/12 budget for recurring items at the same cash level for each of the next three years, £9.1 million in total; and
- (c) that any capacity below £11 million remaining after Planned Maintenance and one-off expenditure budgets are set is used to set up an Asset Replacement Reserve.

Reference: JPG/em/TA41

Report Number CT1109052

REPORT

To: Shetland Charitable Trust

8 September 2011

From: General Manager

Report: CT1109060

Future Governance Arrangements of Shetland Charitable Trust Progress Report

1. Introduction

- 1.1 This report is presented to advise Trustees of progress towards detailed proposals for the new governance arrangements for the Trust.

2. Background

- 2.1 At their meeting in February 2009, Trustees agreed to review the governance arrangements of the Trust in the light of current regulatory and legislative framework.
- 2.2 At a meeting on 8 September 2010, Trustees agreed to seek legal advice to determine if the constitution of the Trust required to be changed in light of current OSCR opinion and trust regulations, and to make such recommendations as necessary for the future governance of the Trust (Min Ref CT/57/10).
- 2.3 At their meeting on 12 May 2011, after considering the legal advice from Senior Counsel, Trustees agreed that the governance of the Trust should change with regard to the composition of the Trustee Board, and in particular that the majority of the Trustees should be drawn from outwith the Council (Min Ref CT/27/11).

3. Present Position

- 3.1 A seminar was held on 17 August 2011, which discussed recommended actions made by the Governance Review Group. Trustees had a constructive discussion at which a number of valuable points were raised.
- 3.2 The Governance Review Group met on 29 August 2011 to discuss the next steps, and a set of proposals are being prepared for public comment, and thereafter to a special Trustee meeting on 21 September 2011.

4. Financial Implications

- 4.1 There are no financial implications arising directly from this report.

5. Recommendation

- 5.1 Trustees are asked to note this report.

4

Reference: EMA/TA38

Report Number CT1109060-f

REPORT**To:** Shetland Charitable Trust

8 September 2011

From: Financial Controller

Report: CT1109054

DISTRICT HEATING SCHEME – MONITORING REPORT, 2011**1. Introduction**

- 1.1 There are two purposes for this report.
- 1.2 The first purpose of this report is to convey financial and other data to Trustees to enable Trustees to monitor the project. The principal period of interest will be that since the last monitoring report a year ago (min ref CT 56/10). The main new source of information now available is the annual accounts of Shetland Heat Energy and Power Limited ('SHEAP') for the year ended 31 March 2011. These show a profit of £337,121 before returns to the Trust. They are summarised in Appendix A.
- 1.3 The second purpose of this report is to report the outcomes of the updated 2011 Business Plan for SHEAP. The Business Plan is the key tool whereby the Directors balance the need to generate sufficient profits to justify the Trust's investment against an aim to keep the tariffs below those for the alternatives, for the benefit of the Shetland economy.

2. Background

- 2.1 The Trust has invested directly into the District Heating Scheme infrastructure (boilers, mains pipes, pumping stations etc). The Trust owns the operating company, SHEAP. SHEAP purchases the heat produced by the Shetland Islands Council's Energy Recovery Plant (the incinerator). The ERP and the District Heating Scheme together are key elements of Shetland's Waste Management Strategy.
- 2.2 Construction of the Scheme's infrastructure began in 1997, with the first customer connected in 1998. The Scheme continued to grow and Trustees noted (min. ref. 115/01) that the £8.5 million (net of grants) spent by the Trust on District Heating Scheme infrastructure up to 31 March 2002 should be valued at £nil on a commercial investment basis. At that point Trustees decided that further investment would only take place if returns at a commercial rate

were in prospect. Trustees have invested a further £5.8 million in the Scheme up until 31 March 2011 on a fully commercial investment basis. £350,000 of this has been used to finance the construction of a hot water tank that is used to store heat to be released at periods of peak demand (and so saving on oil costs). £250,000 has been used to finance a second large peak load boiler. The rest has been used to extend the network and connect customers, with SHEAP now having over 1100 customers, about 100 of which are business customers. The business customers use about 60% of the supplied heat.

- 2.3 The pace of investment has slowed as the Scheme has reached capacity, unless a major new source of heat can be found. The investment budget currently in place for this year is £300,000, and Trustees have agreed £250,000 for 2012/13 with indicative sums of £100,000 included in the Trust's Financial Plan for future years.
- 2.4 SHEAP's General Manager, Neville Martin, and the Shetland Islands Council's Energy Recovery Plant (Incinerator) Manager, Willum Spence, submitted a paper on our District Heating Scheme using Energy from Waste to the Institute of Civil Engineers. The paper was well received and Mr Martin and Mr Spence were awarded the annual James Watt medal.

3. Current Position and 2010/11 Accounts

- 3.1 Over the years SHEAP has turned initial losses into profits as follows:

Period	Actual	Target
15months to 31 March 1999 Loss	£(66,452)	n/a
Year ended 31 March 2000 Loss	£(122,975)	n/a
Year ended 31 March 2001 Loss	£(120,869)	n/a
Year ended 31 March 2002 Profit	£47,313	n/a
Year ended 31 March 2003 Profit *	£61,331	0
Year ended 31 March 2004 Profit *	£107,361	0
Year ended 31 March 2005 Profit *	£122,385	£44,000
Year ended 31 March 2006 Profit *	£148,242	£112,000
Year ended 31 March 2007 Profit *	£219,429	£192,000
Year ended 31 March 2008 Profit *	£225,982	£259,000
Year ended 31 March 2009 Profit *	£307,161	£329,000
Year ended 31 March 2010 Profit *	£295,957	£378,000
Year ended 31 March 2011 Profit *	£315,677	£418,000

* Before distributions to the Trust

These figures are shown after taking into account the payment to the Council for the heat. This payment was £320,762 in 2010/11, up from £249,444 in 2009/10.

- 3.2 The trend shown in the table above is pleasing. Losses become profits and then grow to around £300,000.
- 3.3 The key comparison is the level of profits against the 'target' of returning the Trust's capital plus 5% pa over thirty five years. This return (capital plus 5% - real) from a secure, utility investment meets the 'commercial' investment test, in my opinion. The 2010/11 profit of £315,677 is below the target of £418,000 for the year, but the overall cumulative profits since 2002 remain around the target figure. 2010/11 was heading towards being a very profitable year for SHEAP until the second half of the winter, which was generally cold, and the scheme had to burn more oil than had been planned for. The District Heating Scheme Manager estimates that the cost of the extra oil was more than £150,000.
- 3.4 Looking ahead, the Board have agreed an increase in the tariff of around 17% which is calculated to improve profits to the level required to justify the Trust's investment in the infrastructure. Even after this increase, the cost of heating a house using district heating is estimated to be 20% to 40% less than available alternatives. There are already signs that some customers are finding it harder to pay their bills and this area will be closely monitored in the future.
- 3.5 The scheme continues to attract positive interest from outwith Shetland. The Scottish Government's 2020 Road Map for Renewable Energy has recognised that heat accounts for half of all energy demand and that renewable heat has a significant role to play in meeting targets. The Scottish Government ministers have committed to establishing an Expert Commission on the Delivery of District Heating in Scotland. The Lerwick Scheme is the most significant in Scotland, and demonstrates the potential of such schemes. Both the Welsh Assembly and Glasgow City Council have approached SHEAP/SCT for information on the Scheme.

4. Future Prospects and 2011 Business plan

- 4.1 The Scheme has reached capacity, i.e. it cannot support any more customers without another source of heat.
- 4.2 The Scheme covers much of Lerwick, with the main areas not served at present being parts of Twageos, the Esplanade area, the old North Road/Staney Hill area (which would need a pumping station), the Industrial areas to the North of Lerwick and Upper Sound (here there is already a pumping station at Quoys). Further expansion of the Scheme would require a second significant source of heat. Staff at SHEAP and the Board are exploring possibilities. The most promising at this time is a potential wind to heat scheme using electricity produced by three 2.3MW aero generators, with

heat stored in a large thermal store. Trustees have agreed an investment budget of £100,000 to enable this project to be investigated.

- 4.3 However, for present purposes, the updated 2011 Business Plan assumes that no significant new source of heat will be introduced in the next few years.
- 4.4 The current year (2011/12) investment budget for District Heating Scheme infrastructure is £300,000, with £250,000 agreed for 2012/13. The projections in the 2011 Business Plan shows that profits can be expected at a level at the necessary target to provide a commercial return on the Trust's investment. The scheme still has a few previously agreed connections to make, but is otherwise at capacity and has ceased expansion. The requirement for Trust investment in infrastructure in the future will reduce considerably, unless a new appropriately priced heat source is identified.
- 4.5 Trustees have been accustomed to setting investment budgets over three years based on the current business plan. However, the scheme is close to a point where it will either cease to expand, or will launch into a new phase if a suitably priced source of heat can be identified. I suggest that it is sufficient to work with budgets for this year and next for the time being.

5. Possible Developments Outwith Lerwick

- 5.1 The SHEAP Board and associated officers have followed progress elsewhere on small (20 – 100 unit) combined heating and power ('CHP') area schemes. For example, a CHP scheme in Oban is based on burning waste wood chips generated from the local sawmills, and heats 90 houses. The UK Government will be implementing the Renewable Heat Initiatives, RHI, later this year, which could make other heat sources available.
- 5.2 There are various potential targets in Shetland for such an area scheme. As well as the larger settlements such as Scalloway and Brae, there are a number of areas that have social housing near to some or all of a leisure centre, a school and a village hall. Officers believe that such a scheme would potentially be commercially viable, particularly if new social housing was planned to be built nearby. A scheme in Mid Yell heating the school, leisure centre, nursery and possible future care centre is looking very promising and is being currently investigated by the SIC with SHEAP providing technical assistance.
- 5.3 There are a number of possibilities at present and SHEAP is following up on several of them. Reports to Trustees may follow.

6. Conclusions

- 6.1 SHEAP has turned loss into profits, and expects to return significant amounts to the Trust over the lifetime of the scheme (35 years).
- 6.2 Investment in District Heating Scheme infrastructure has presented the Trustees, in my judgment, with the opportunity to make a low risk, good return, local investment since 2002.
- 6.3 The District Heating Scheme is performing as a commercial investment for Shetland Charitable Trust. In addition, increasing payments are being made to Shetland Islands Council for the purchase of heat. The payment was over £320,000 for 2010/11. The District Heating Scheme (as part of the wider Waste to Energy Scheme) clearly has benefits to Shetland that cannot be quantified precisely in financial terms. Appendix B contains estimates of the wider benefits of the Scheme, prepared by the Manager of SHEAP.

7. Financial Implications

- 7.1 Successful investment on a commercial basis generates funds for future charitable disbursements. If this can be done within Shetland, then other benefits will flow to the community.
- 7.2 HMRC have accepted that the Trust can continue to invest in the District Heating Scheme infrastructure and SHEAP on a commercial basis. The Office of the Scottish Charity Regulator (OSCR) have indicated that they will have no issues with investments deemed as "qualifying" by HMRC.

8. Recommendations

- 8.1 I recommend that Trustees note the progress that SHEAP has made.

Reference: JPG/em/IS1
Date: 18 August 2011

Report Number CT1109054

Appendix A

SHEAP Summary Accounts 2010/11

	2010/11 £000	2009/10 £000	Variance £000
Turnover	1,845	1,526	319
Fuel and Heat	-854	-651	-203
SIC Compensation	0	0	0
Gross Profit	991	875	116
Employee Costs	-242	-229	-13
Operating Costs	-329	-287	-42
Depreciation	-83	-63	-20
Costs	-654	-579	-75
Operating Profit For SCT Group	337	296	41
Rental of Infrastructure	-20	-20	0
Gift Aid Payment to SCT	-339	-340	1
Reported (Loss)/Profit for the year Before Deferred Tax	-22	-64	42
Movement in Deferred Tax	9	-3	12
Reported (Loss) for the year	-13	-67	54

ANNUAL DISTRICT HEATING BENEFITS TO THE SHETLAND ECONOMY

(as at December 2010)

Over £1,500,000 pa income from sales stays in Shetland
This will increase for the current financial year but will level off after 2011 unless
a new heat source is developed and expansion can recommence.

Savings on fuel bills around £1,100,000pa
(at oil price of \$85 a barrel in Dec 2010 when 56p per litre)
About 60% of heat sales are to non domestic properties
including Council, Trust and Health Board
This will increase with oil price and more customers.
Some businesses will also save on the climate change levy

Without the scheme the net income and savings currently totalling around £2,600,000+ per
annum would mostly have gone on oil and electricity and most would left the Shetland economy.

plus

Large capital savings for new build such as the
proposed high school (£X00,000) as a result of
smaller and much simpler plant rooms

plus

Savings in maintenance costs (£X00,000)
Especially for large users such as the Shetland Recreational Trust
and Shetland Health Board

WORKS CREATED

About £300,000 new connections (75% local input)
Plumbing internals £300,000 per annum or more
This will decrease after 2011 unless new heat sources are developed

OTHER POTENTIAL BENEFITS

Stable energy prices ensures commercial confidence
Potential income to industrial waste heat producers and other renewables once the
infrastructure and customer base has been developed

NOTE

These figures do not take into account benefits of the
Waste to Energy Plant in landfill reduction and jobs.

Also there are significant environmental benefits such as a reduction of 6,070 tonnes of
fossil fuel imports and 16,000 tonnes of carbon dioxide

REPORT

To: Shetland Charitable Trust

8 September 2011

From: Financial Controller

Report No: CT1109049

MANAGEMENT ACCOUNTS – THREE MONTHS ENDED 30 JUNE 2011

1 Introduction and Key Decisions

- 1.1 This report presents the Trust's Management Accounts to the end of June 2011, 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 2011/12 and the expenditure in the three months to 30 June 2011.

Table 1: Summary Management Accounts 2011/12

Item	Current Budget £m	Spend to June 11 £m
Charitable Expenditure		
Schemes and Organisations	8.5	3.4
Maintenance/Capital Programme	1.6	0.8
One-Off Projects	0.3	0
Operating Costs	0.5	0.1
Total	10.9	4.3

- 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 £3.4 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 £1.5 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 2011/12 to give the current budget.

Table 2: Budget Amendments

Original Budget Presented 11 February 2011	10,793,546
Approvals Presented 24 March 2011	
Shetland Recreational Trust – Sandwick Pool Roof	200,000
Revised budget as at 30 June 2011	<u>£10,993,546</u>

- 2.6 Budget Virements have been effected as follows:-
- £3,000 from the Basic Pay and Allowances Budget into the Water Rates Budget;
- £2,000 from the Finance Budget into the Messenger Service Budget.
- 2.7 An allocation of £288,000 was made from the 2010/11 Shetland Development Trust money, which was paid over by Shetland Islands Council.

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 June 2011, as shown in the Management Accounts in Appendix 1.

Financial Controller
Shetland Charitable Trust
Our Ref:LF/DA5

Report No: CT1109049
Date: 24 August 2011

Shetland Charitable Trust Management Accounts
Charitable Expenditure : Period to 30 June 2011

Appendix 1

	Current budget £	Actual spend to 30 June £	year to date variance £
Shetland Amenity Trust	1,052,728	526,364	526,364
Shetland Arts Development Agency	696,038	348,019	348,019
Shetland Recreational Trust	2,583,392	1,291,696	1,291,696
<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	54,075	27,038	27,037
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
Sub Total Charitable Organisations	5,285,785	2,671,102	2,614,683
<u>Schemes</u>			
Community Development Grants	14,272	4,768	9,504
Community Support Grants	72,321	0	72,321
Arts Grant Scheme	35,000	16,346	18,654
Sheltered Housing Heating	25,500	1,030	24,470
Senior Citizens Clubs	23,000	13,417	9,583
Support to Rural Care Model	2,491,000	622,750	1,868,250
Social Assistance Grants	35,000	2,027	32,973
Buses for Elderly and Disabled	49,980	12,495	37,485
Supported Employment	8,000	0	8,000
Sub Total Schemes	2,754,073	672,833	2,081,240
<u>Direct Schemes</u>			
Springfield	1,500	-917	2,417
Xmas grant Scheme	487,000	0	487,000
Planned Maintenance	1,605,428	784,580	820,848
Sub Total Direct Schemes	2,093,928	783,663	1,310,265
<u>One-Off Projects</u>			
Shetland Arts Dev. Agency - Mareel	100,000	0	100,000
Joint legal advice	20,000	0	20,000
Shetland Rec Trust - Sandwick Pool Roof	200,000 *	0	200,000
Sub Total One-Off Projects	320,000	0	320,000
Trust Administration	539,760	147,757	392,003
Surplus Grants Refunded	0	-24,078	24,078
Total	10,993,546	4,251,276	6,742,270

**Shetland Charitable Trust Management Accounts
Management and Administration : Period to 30 June 2011**

Appendix 1

	Current budget £	Actual spend to 30 June £	year to date variance £
Staffing Costs			
Basic Pay and Allowances	352,000 ^v	79,331	272,669
Professional Membership Fees	2,000	145	1,855
Travel and Subsistence	6,500	390	6,110
Training and Staff Development	2,500	1,066	1,434
Sub Total Staffing Costs	363,000	80,932	282,068
Operating Costs			
Insurance	10,000	9,740	260
Administration	3,000	645	2,355
Supplies and Services	6,000	1,152	4,848
Bank Charges	1,000	125	875
Professional Fees: Other	5,000	1,860	3,140
Miscellaneous Items	1,200	559	641
External Audit Fees	22,000	0	22,000
Trustees Allowances	7,500	1,446	6,054
Trustees Expenses	2,800	583	2,217
Legal Fees	40,000	19,600	20,400
Sub Total Operating Costs	98,500	35,710	62,790
Property Costs			
Energy Costs	3,500	1,348	2,152
Water Rates	3,000 ^v	2,305	695
Cleaning	3,500	0	3,500
Sub Total Property Costs	10,000	3,653	6,347
Bought In Services			
Finance	43,000 ^v	13,302	29,698
Committee Services	12,000	12,000	0
Computer Services	9,100	0	9,100
Messenger Service	2,000 ^v	0	2,000
Insurance Admin	2,160	2,160	0
Sub Total Bought In Services	68,260	27,462	40,798
Total	539,760	147,757	392,003
Shetland Development Trust Fund			
COPE Ltd	288,000 *	144,000	144,000

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

^v These budgets have been modified by Virements

REPORT

To: Shetland Charitable Trust

8 September 2011

From: Financial Controller

Report: CT1109055

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 1 May 2011 to 31 July 2011.

2.2 Appendix B lists the investment decisions made by Schroder Investment Management Limited during the period from 1 May 2011 to 31 July 2011.

2.3 BlackRock made no purchases or sales during the period from 1 May 2011 to 31 July 2011, so there is no appendix for this manager.

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 to date:

2011/12 to 19 Aug 2011

	£ million
Market Value at start	178.8
Market Movement	(10.1)
Injection/(Withdrawal)	0.0
Market Value at close	<u>168.7</u>

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

4. Recommendation

4.1 The Trustees are asked to note this report.

7

INSIGHT INVESTMENT MGMT REPORT – PURCHASES

NAME OF SECURITY	AREA	DATE	NUMBER OF UNITS	PURCHASE PRICE (£)
	QF = quoted fixed UF = unquoted fixed			
UNITED KINGDOM				
UK(GOVT OF) 1.875% I/L STK 22/11/22 GBP	QF GIL GB	22/07/2011	964,000.00	1,294,966.39
UK(GOVT OF) 1.25% I/L STK 22/11/17 GBP	QF GIL GB	09/06/2011	608,000.00	813,776.84
UK(GOVT OF) I/L STK 22/3/2034 GBP	QF GIL GB	24/05/2011	775,000.00	768,056.00
UK(GOVT OF) 3.25% TSY GILT 07/12/11 GBP	QF GB GB	11/07/2011	671,000.00	678,783.60
UK(GOVT OF) I/L STK 22/3/2034 GBP	QF GIL GB	08/06/2011	496,000.00	506,159.17
UK(GOVT OF) 1.25% I/L STK 22/11/17 GBP	QF GIL GB	09/06/2011	346,000.00	463,311.40
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	06/05/2011	387,000.00	454,209.52
UK(GOVT OF) 1.25% I/L STK 22/11/55 GBP	QF GIL GB	07/06/2011	225,000.00	355,117.71
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	26/05/2011	297,000.00	353,628.83
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	12/05/2011	247,000.00	312,025.23
UK(GOVT OF) 1.875% I/L STK 22/11/22 GBP	QF GIL GB	14/06/2011	209,000.00	276,940.24
UK(GOVT OF) 1.875% I/L STK 22/11/22 GBP	QF GIL GB	16/06/2011	207,000.00	276,519.95
UK(GOVT OF) 2.5% I/L STK 26/07/16 GBP	QF GIL GB	23/06/2011	69,000.00	229,521.60
UK(GOVT OF) 2.5% I/L STK 16/04/20 GBP	QF GIL GB	05/07/2011	68,000.00	227,800.00
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	29/07/2011	169,000.00	211,162.58
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	27/07/2011	169,000.00	208,600.68
ILF GBP LIQUIDITY FD	DEP	17/06/2011	190,000.00	190,000.00
ILF GBP LIQUIDITY FD	DEP	15/06/2011	185,000.00	185,000.00
UK(GOVT OF) 1.875% I/L STK 22/11/22 GBP	QF GIL GB	24/06/2011	133,000.00	177,028.82
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	20/07/2011	110,000.00	148,341.55
UK(GOVT OF) I/L STK 22/3/2034 GBP	QF GIL GB	20/07/2011	140,000.00	147,982.78
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	19/05/2011	115,000.00	143,485.46
UK(GOVT OF) 4.125% I/L STK 22/07/30 GBP	QF GIL GB	19/05/2011	52,000.00	141,159.20
ILF GBP LIQUIDITY FD	DEP	19/07/2011	120,000.00	120,000.00
UK(GOVT OF) 2.5% I/L STK 16/8/13 GBP100	QF GIL GB	08/07/2011	41,000.00	117,629.00
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	16/05/2011	87,000.00	109,523.53
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	27/07/2011	85,000.00	104,411.33
UK(GOVT OF) I/L STK 22/3/2034 GBP	QF GIL GB	18/07/2011	94,000.00	99,154.78
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	24/05/2011	79,000.00	98,741.46
UK(GOVT OF) I/L STK 22/3/2034 GBP	QF GIL GB	19/07/2011	93,269.00	98,366.09
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	23/06/2011	75,000.00	97,866.12
UK(GOVT OF) 2% I/L STK 26/01/35 GBP100	QF GIL GB	18/05/2011	57,000.00	96,580.80
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	17/05/2011	76,000.00	96,537.10
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	17/05/2011	76,000.00	96,293.03
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	16/05/2011	76,000.00	96,172.49
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	13/05/2011	82,000.00	96,160.00
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	17/05/2011	82,000.00	96,052.26
UK(GOVT OF) 2% I/L STK 26/01/35 GBP100	QF GIL GB	04/05/2011	56,000.00	94,802.40
UK(GOVT OF) 2% I/L STK 26/01/35 GBP100	QF GIL GB	19/05/2011	56,000.00	93,968.00
ILF GBP LIQUIDITY FD	DEP	07/06/2011	90,000.00	90,000.00
UK(GOVT OF) 1.25% I/L STK 22/11/55 GBP	QF GIL GB	23/06/2011	46,000.00	72,708.16
ILF GBP LIQUIDITY FD	DEP	24/06/2011	65,000.00	65,000.00
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	19/05/2011	42,000.00	52,432.30
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	24/05/2011	44,000.00	51,205.24
ILF GBP LIQUIDITY FD	DEP	09/06/2011	50,000.00	50,000.00
UK(GOVT OF) 1.25% I/L STK 22/11/55 GBP	QF GIL GB	19/05/2011	27,000.00	40,490.78
ILF GBP LIQUIDITY FD	DEP	23/05/2011	15,000.00	15,000.00
ILF GBP LIQUIDITY FD	DEP	08/06/2011	15,000.00	15,000.00
ILF GBP LIQUIDITY FD	DEP	24/05/2011	10,000.00	10,000.00
ILF GBP LIQUIDITY FD	DEP	12/07/2011	10,000.00	10,000.00
ILF GBP LIQUIDITY FD	DEP	18/07/2011	10,000.00	10,000.00
ILF GBP LIQUIDITY FD	DEP	22/07/2011	10,000.00	10,000.00
ILF GBP LIQUIDITY FD	DEP	05/05/2011	5,000.00	5,000.00
ILF GBP LIQUIDITY FD	DEP	11/05/2011	5,000.00	5,000.00
ILF GBP LIQUIDITY FD	DEP	18/05/2011	5,000.00	5,000.00
ILF GBP LIQUIDITY FD	DEP	20/05/2011	5,000.00	5,000.00
ILF GBP LIQUIDITY FD	DEP	10/06/2011	5,000.00	5,000.00
ILF GBP LIQUIDITY FD	DEP	11/07/2011	5,000.00	5,000.00
ILF GBP LIQUIDITY FD	DEP	26/07/2011	5,000.00	5,000.00
UK(GOVT OF) 2.5% I/L STK 26/07/16 GBP	QF GIL GB	24/06/2011	1,000.00	3,321.70
ILF GBP LIQUIDITY FD	DEP	01/07/2011	205.00	205.00
ILF GBP LIQUIDITY FD	DEP	01/06/2011	162.17	162.17
ILF GBP LIQUIDITY FD	DEP	03/05/2011	96.27	96.28

TOTAL UNITED KINGDOM

Page 1

10,706,457.57

INSIGHT INVESTMENT MGMT REPORT - PURCHASES

NAME OF SECURITY	AREA	DATE	NUMBER OF UNITS	PURCHASE PRICE (£)
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QF = quoted fixed
UF = unquoted fixed

OVERSEAS

NO OVERSEAS INVESTMENTS PURCHASED

TOTAL OVERSEAS

0.00

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) 1.25% I/L STK 22/11/2032	QF GIL GB	22/07/2011	570,000.00	708,019.39	49,648.22
UK(GOVT OF) 1.875% I/L STK 22/11/22 GBP	QF GIL GB	09/06/2011	350,000.00	462,892.30	40,475.68
UK(GOVT OF) 1.25% I/L STK 22/11/27 GBP	QF GIL GB	06/05/2011	352,000.00	455,046.25	30,465.89
UK(GOVT OF) 2.5% I/L STK 26/07/16 GBP	QF GIL GB	09/06/2011	244,000.00	809,470.00	26,047.00
UK(GOVT OF) 0.5% I/L STK 22/3/50 GBP	QF GIL GB	07/06/2011	327,000.00	355,697.35	25,352.04
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	08/06/2011	462,000.00	557,458.89	23,831.73
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	26/05/2011	332,000.00	354,243.68	20,544.80
UK(GOVT OF) 2.5% I/L STK 17/07/24 GBP	QF GIL GB	19/05/2011	49,000.00	141,840.30	12,796.61
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	12/05/2011	262,000.00	275,394.22	12,053.54
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	20/07/2011	119,000.00	148,907.74	11,458.32
UK(GOVT OF) 2.5% I/L STK 17/07/24 GBP	QF GIL GB	05/07/2011	37,000.00	108,820.70	11,379.54
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	20/07/2011	119,000.00	148,611.62	11,162.20
UK(GOVT OF) 4.25% STK 07/12/2055 GBP100	QF GB GB	11/07/2011	345,341.00	354,319.87	10,187.56
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	29/07/2011	105,000.00	141,160.08	8,553.26
UK(GOVT OF) 2.5% I/L STK 17/07/24 GBP	QF GIL GB	19/05/2011	33,000.00	95,403.00	8,496.02
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	27/07/2011	105,000.00	140,121.72	7,514.90
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	18/07/2011	80,000.00	99,686.71	7,283.74
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	19/07/2011	79,000.00	98,501.91	7,253.98
UK(GOVT OF) 1.25% I/L STK 22/11/27 GBP	QF GIL GB	04/05/2011	74,000.00	96,120.52	6,862.15
UK(GOVT OF) 1.25% I/L STK 22/11/27 GBP	QF GIL GB	13/05/2011	75,000.00	96,962.08	6,497.51
UK(GOVT OF) 1.25% I/L STK 22/11/27 GBP	QF GIL GB	17/05/2011	75,000.00	96,895.93	6,431.36
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	23/06/2011	114,000.00	137,756.90	6,082.67
UK(GOVT OF) 4.25% STK 07/12/2055 GBP100	QF GB GB	11/07/2011	162,829.00	167,437.06	5,177.96
UK(GOVT OF) 4.25% STK 07/12/2055 GBP100	QF GB GB	11/07/2011	162,830.00	167,389.24	5,129.14
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	17/05/2011	92,000.00	97,573.09	5,102.32
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	27/07/2011	50,000.00	55,293.35	5,037.50
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	17/05/2011	92,000.00	97,287.27	4,816.50
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	23/06/2011	81,000.00	98,255.19	4,697.18
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	16/05/2011	92,000.00	97,113.26	4,642.49
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	19/05/2011	139,000.00	144,192.65	4,481.37
UK(GOVT OF) 1.25% I/L STK 22/11/17 GBP	QF GIL GB	16/06/2011	344,000.00	464,702.92	4,201.50
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	16/05/2011	92,000.00	96,502.30	4,031.53
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	24/05/2011	95,000.00	98,885.51	3,399.39
UK(GOVT OF) 1.875% I/L STK 22/11/22 GBP	QF GIL GB	29/07/2011	49,000.00	67,246.62	3,232.52
UK(GOVT OF) 1.875% I/L STK 22/11/22 GBP	QF GIL GB	18/05/2011	32,006.00	41,791.55	3,163.36
UK(GOVT OF) 1.25% I/L STK 22/11/27 GBP	QF GIL GB	24/05/2011	40,553.00	52,070.27	3,155.48
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	24/06/2011	47,000.00	57,033.49	2,746.74
UK(GOVT OF) 1.875% I/L STK 22/11/22 GBP	QF GIL GB	27/07/2011	50,000.00	67,833.93	2,513.42
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	18/05/2011	52,405.00	55,083.53	2,410.37
UK(GOVT OF) 0.625% I/L STK 22/11/42 GBP	QF GIL GB	19/05/2011	89,000.00	94,826.16	2,197.74
UK(GOVT OF) 1.25% I/L STK 22/11/17 GBP	QF GIL GB	14/06/2011	346,000.00	465,214.63	2,035.88
UK(GOVT OF) 1.875% I/L STK 22/11/22 GBP	QF GIL GB	27/07/2011	35,000.00	47,355.72	1,631.36
UK(GOVT OF) 1.25% I/L STK 22/11/17 GBP	QF GIL GB	23/06/2011	172,000.00	231,876.99	1,626.28
UK(GOVT OF) 1.25% I/L STK 22/11/17 GBP	QF GIL GB	24/06/2011	88,000.00	118,571.47	768.78
HOSPITAL CO DARTFO 3.003%-IDX LKD 31/10/31	QF CIL GB	03/05/2011	995.57	1,270.64	252.40
UK(GOVT OF) 2.5% I/L STK 16/8/13 GBP100	QF GIL GB	18/07/2011	41,000.00	117,747.90	118.90
UK(GOVT OF) 1.25% I/L STK 22/11/17 GBP	QF GIL GB	24/06/2011	4,000.00	5,388.16	33.49
ILF GBP LIQUIDITY FD	DEP	10/05/2011	35,000.00	35,000.00	0.00
ILF GBP LIQUIDITY FD	DEP	13/05/2011	40,000.00	40,000.00	0.00
ILF GBP LIQUIDITY FD	DEP	17/05/2011	10,000.00	10,000.00	0.00
ILF GBP LIQUIDITY FD	DEP	25/05/2011	310,000.00	310,000.00	0.00
ILF GBP LIQUIDITY FD	DEP	06/07/2011	5,000.00	5,000.00	0.00
ILF GBP LIQUIDITY FD	DEP	25/07/2011	590,000.00	590,000.00	0.00
UK(GOVT OF) 2.5% I/L STK 26/07/16 GBP	QF GIL GB	08/07/2011	36,000.00	119,340.00	-407.98
UK(GOVT OF) 2.5% I/L STK 26/07/16 GBP	QF GIL GB	05/07/2011	34,000.00	112,458.40	-636.92
UK(GOVT OF) 2.5% I/L STK 23/08/11 GBP	QF GIL GB	24/05/2011	148,000.00	455,706.80	-1,266.94
TOTAL UNITED KINGDOM				10,568,779.26	424,670.47
OVERSEAS					
NO OVERSEAS INVESTMENTS SOLD					
TOTAL OVERSEAS				0.00	0.00

APPENDIX B)**SCHRODERS REPORT - PURCHASES**

NAME OF SECURITY	AREA	DATE	NUMBER OF SHARES	PURCHASE PRICE (£)
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UNITED KINGDOM

MAYFAIR CAP PPTY (MCPUT)	UP UT GB	22/06/2011	463.05	469,995.75
MAYFAIR CAP PPTY (MCPUT)	UP UT GB	01/06/2011	135.96	137,999.40
THREADNEEDLE INV STRATEGIC PROPRTY FUND IV T	UP UT GB	09/06/2011	96.00	96,000.00

TOTAL UNITED KINGDOM

703,995.15

OVERSEAS

NO OVERSEAS INVESTMENTS PURCHASED

TOTAL OVERSEAS

0.00

SCHRODERS REPORT - SALES

NAME OF SECURITY	AREA	DATE	NUMBER OF SHARES	SELLING PRICE (£)	PROFIT/ (LOSS) (£)
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UNITED KINGDOM

NO UK INVESTMENTS SOLD

TOTAL UNITED KINGDOM

0.00

0.00

OVERSEAS

NO OVERSEAS INVESTMENTS SOLD

TOTAL OVERSEAS

0.00

0.00

REPORT

To: Shetland Charitable Trust

8 September 2011

From: General Manager

Report No. CT1109056

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 Development Grants - £3,000

- 2.1 The following community development grants were approved by the Head of Service, Community Development in the period from 11 June to 19 August 2011: -

Name of Organisation	Grant Approved (£)
Scalloway Youth Centre Trust	1,000
Muckle Roegues	1,000
St Olaf Community Club (Ollaberry Public Hall)	500
Shetland Bus Friendship Society	500



3. Community Support Grants - £14,129

3.1 The following community support grants were approved by the Head of Service, Community Development in the period from 11 June to 19 August 2011: -

Name of Organisation	Grant Approved (£)
1 st /2 nd Lerwick Sea Scout Group	4,261
Brae Youth Centre	9,868

4. Community Arts Grants - £19,637

4.1 The following community arts grants were approved by the Head of Service, Community Development, in consultation with Shetland Arts, in the period from 11 June to 19 August 2011: -

Name of Organisation/ Individual	Grant Approved (£)
Mr James Watt	292
Mrs Janis Adamson (on behalf Hannah Adamson)	389
Mr Stephen Hook (on behalf Hayden Hook)	657
Mrs Valerie Wishart (on behalf Sophie Wishart)	160
Vunk Fest	2,830
Miss Jacqueline Clark	1,000
Miss Ellen Smith	151
Mr Alan Hall (on behalf Lewis Hall)	293
Mrs Susan Keay (on behalf Sarah Keay)	435
Mr Robin Wilmore (on behalf Norman Wilmore)	169
Shetland Jazz Club	3,000
Aestaewast	1,500
Mr Peter Johnson	312
North Star Project	964
Shetland Film Club	1,195
Sandveien Neighbourhood Centre	1,500
ZetZimbira	1,500
Mr David Marsh	315
Mrs Elizabeth Garrick	100
Shetland Blues Festival	2,875

5. Recommendation

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

REPORT

To Shetland Charitable Trust

8 September 2011

From: General Manager

Report No. CT1109057

RECOMMENDED DISBURSEMENTS – SOCIAL CARE

1. Background

- 1.1 This report concerns approvals by the Council's Head of Community Care in the period to 19 August 2011, in terms of Report Number CT/030/94, which was approved by the Trustees on 8 April 1994.

2. Social Assistance Grant Scheme - £801.00

- 2.1 The Head of Community Care approved the following:-

	(£)
1 Social Assistance Grant of up to £2,000 (Appendix A)	<u>801.00</u>

- 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 £801.00.

Shetland Charitable Trust

Date: 26 August 2011

Ref: AJ/DS1

Report No: CT1109057

SOCIAL ASSISTANCE GRANT SCHEME at 19 August 2011

Funds available in 2011/2012	£ 35,000.00
Less previously allocated	£ 2,742.42

Less the following: -

<u>Reference</u>	<u>Amount</u>
11/12 11	£801.00

(1) Approval by Executive Director, Education and Social Care	£ 801.00
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Balance of Funds remaining	£ 31,456.58
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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.

Executive Director, Education and Social Care
Agent for the Trustees of Shetland Charitable Trust