



General Manager: Dr Ann Black

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If calling please ask for
Mary Anderson
Direct Dial: 01595 744992

Date: 15 June 2010

Our Ref: EMA/TA1/1
Your Ref:

Dear Sir/Madam

You are invited to the following meeting:

Shetland Charitable Trust
Clickimin Leisure Complex, Lochside, Lerwick
Thursday 24 June 2010 at 10.30am

(Please note the venue and time of this meeting).

This meeting is preceded by a discussion with OSCR at 9am.

Apologies for absence should be notified to Louise Adamson on 01595 744555, or to Jenna Johnson on 01595 744544.

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 minute of the meeting held on 13 May 2010 (enclosed).

For Information

1. Shetland Development Trust Surplus. Report enclosed.

For Decision

2. Shetland Development Trust Surplus Application for Funding – Shetland Recreational Trust. Report enclosed.
3. Market House – ICT Replacement. Report enclosed.
4. Planned Maintenance Programme - Slippage. Report enclosed.
5. Independence at Home Scheme Repayment. Report enclosed.
6. Christmas Grants to Pensioners/Disabled Persons 2010. Report enclosed.
7. Risk Management – Annual Review. Report enclosed.
8. General Administration – Complaints Procedure. Report enclosed.

For Information

9. Payments to Trustees in the Year to 31 March 2010. Report enclosed.
10. Recommended Disbursements – Approvals. Report enclosed.
11. Recommended Disbursements – Social Care. Report enclosed.
12. Fund Managers Transactions. Report enclosed.
13. Viking Energy – Progress Report. Report enclosed.

The following items contain **confidential** information

For Decision

14. Viking Energy Limited – Budget Drawdown. Report enclosed.

For Information

15. SHEAP Ltd. Report enclosed.
16. Sums Due but Unpaid over one month old as at 31 May 2010. Report enclosed.
17. List of Deeds Executed. Report enclosed.

REPORT

To: Shetland Charitable Trust

24 June 2010

From: General Manager

Report: CT1006041

Shetland Development Trust Surplus**1. Introduction**

- 1.1 This report is to inform Trustees of a decision made by Shetland Development Trust, to donate their current undistributed and future surplus to Shetland Charitable Trust.

2. Background

- 2.1 Shetland Development Trust (SDT) is a non-charitable trust set up by Shetland Islands Council (SIC) to promote economic development in Shetland. SIC staff originally managed the SDT, but in 2002 a separate body was set up, with dedicated staff and 8 trustees. The current trust has the SIC as sole Trustee, with decisions on its behalf delegated to a Development Committee of SIC members.
- 2.2 Any surplus funds distributed from SDT to a charity attracts an additional tax credit, currently 40%.

3. Present Position

- 3.1 The SIC's Development Committee has decided to donate their current uncommitted surplus of £347,160, and all future surpluses earned for the duration of the existing portfolio of investments. This initial payment relates to the 2008/09 surplus, and will be worth £578,600 to the Trust. SDT has indicated that it can reasonably expect to earn at least £0.5 million for 2009/10, and for the foreseeable future, which will be worth some £0.8 million to the Trust.

4. Financial Implications

- 4.1 This income has not been accounted for in the Trust's overall financial projections. Trustees will be asked in due course whether they wish to support various proposals which could be funded from this additional income. One such proposal is the subject of a concurrent report.

5. Recommendation

- 5.1 This report is for noting.

REPORT

To: Shetland Charitable Trust

24 June 2010

2.

From: General Manager

Report: CT1006042

**Shetland Development Trust Surplus
Application for funding – Shetland Recreational Trust****1. Introduction**

- 1.1 This report is presented to seek approval to allocate some of the funds which have recently been gifted to the Trust by Shetland Development Trust (SDT).

2. Background

- 2.1 Shetland Development Trust (SDT) has decided to donate its current and future undistributed surplus to Shetland Charitable Trust. The sum of £347,160, which with the tax credit of 40% is worth £578,600 to the Trust, has already been paid in respect of the surplus for 2008/09. It is anticipated that future donations could be in the order of £0.8 million per annum, including the tax credit.
- 2.2 Shetland Recreational Trust (originally Clickimin Recreational Trust) was created by the Shetland Islands Council (SIC) in 1982, for the purpose of “providing, or assisting with the provision of, facilities in the interest of social welfare for recreation and leisure time occupation with the object of improving the condition of life for the inhabitants of Shetland”.¹
- 2.3 Shetland Recreational Trust (SRT) is substantially funded by the Trust. As part of the work of the Funded Bodies Review Group, the Trust asked the three big trusts, which includes SRT, to identify savings of £0.5 million on their revenue funding. SRT’s share of the savings was £300,000. As part of the savings to be made by the Trust, the SIC’s Education Service agreed to recommend that school use of the SRT’s leisure centres should be funded by SIC.
- 2.4 A report was presented to the SIC’s Services Committee, which identified that the true cost of School Use of the SRT’s facilities could realistically be set at £400,000, based on actual usage. The additional funding was approved by the Committee, then subsequently removed in a cost cutting exercise. This left SRT with a £400,000 funding shortfall.

¹ Declaration of Trust by Alexander Irvine Tulloch and others in favour of Clickimin Recreational Trust 1982

- 2.5 To compound the funding problem, SRT have been experiencing larger than usual increases in costs such as electricity, oil and district heating, however these costs are being controlled within existing budgets.



3. **Proposal**

- 3.1 SRT has applied for funding, on a one-off basis, to cover an anticipated shortfall in revenue funding for 2010/11, projected to be some £400,000.
- 3.2 It should be noted that in an effort to balance its books, SRT has already re-structured, and has made 22 staff redundant. They are to be congratulated that this has had minimal impact on the service. However if this funding is not secured, SRT will have to take more severe measures to cut costs, which must have a noticeable impact on the level of service.
- 3.3 SRT is currently undertaking a review of its opening hours to see if further savings can be made without too significant an impact on its service (with a corresponding impact on income).

4. **Financial Implications**

- 4.1 Trustees must decide whether to spend this income, which is over and above the Trust's budgeted income. Agreeing to fund this proposal will not breach the Trust's policy, as the income has not been included in the Trust's budget.

5. **Recommendation**

- 5.1 Trustees are recommended to approve a one-off grant of £400,000 from the funds gifted to the Trust by Shetland Development Trust. This grant would be subject to the standard Trust conditions for running costs grants.

Reference: EMA/DT7

Report Number CT1006042-f

REPORT

To: Shetland Charitable Trust

24 June 2010

3.

From: Financial Controller

Report: CT1006044

Market House – ICT Replacement**1. Introduction**

- 1.1 This report is presented to ask Trustees to consider a request for additional funding for Market House of £19,750 for replacement and renewal of ICT systems.
- 1.2 Every five years or so Market House will need similar expenditure for a similar purpose. At present there is no provision for such funding in the Trust's budgets for running cost grants or within the asset replacement programme.
- 1.3 I have no doubt that the work needs to be done, the issue is how can it be paid for?

2. Background

- 2.1 The Trust has funded the construction of various buildings and assets over the last 30 years. Examples include Care Homes and Leisure Centres. Trustees decided in 2002 that, due to funding issues, they would close the capital programme to new bids, but would continue to fund the projects in the programme at that time. One of the projects was Market House.
- 2.2 As a brief aside, I remind Trustees that they have modified the 2002 decision to say that capital projects can be considered if they can be funded within the level of self-sustaining expenditure, currently £11 million pa in 2009 prices.
- 2.3 Trustees grant aided Voluntary Action Shetland, VAS, (formally SCSS) for the construction project. Generally the building phase was successful. It was well managed and the Trust's final spend was over £300,000 below the original budget due to design savings, a favourable tender price, a favourable VAT outcome and success in attracting funding from the Community Fund. Shetland Enterprise was also a part funder. Total Trust funding to VAS (including design and pre-tender) was £1,985,967.
- 2.4 The building opened five years ago, and has been a success from a service provision perspective. One aim was to bring the voluntary sector together, another was to remove the duplication of funding for rent, photocopiers, part-time receptionists etc. Market House has

played a key part in allowing much of the voluntary sector to concentrate on what it does best, service provision, with VAS supporting and providing administration and leadership for the sector.

3. Current Issue

- 3.1 The original capital project to build Market House contained provision for a centralised telephone system. It was envisaged that each user organisation would bring its own pre-existing computer system with them, so there was no provision in the original budget for computers. Towards the end of the construction phase Trustees accepted that there would be great merit in incorporating the building into the Shetland Islands Council corporate ICT support and data network. The initial capital cost should be offset in time by economies of scale and future cost savings. There are service benefits in improved communications between the user organisations, and between them and the Council and other bodies using the same systems (including ourselves).
- 3.2 Trustees agreed to increase the capital project budget by £26,000 to fund the initial costs. The bids from VAS for annual running cost grants contain provision to pay the Council for support under a SLA. However, no provision has been made for replacement/upgrading of the hardware.
- 3.3 Generally the Trust funds or part funds the ICT costs of the organisations where we fund central administration costs. So perhaps it is an oversight that funding of replacement ICT equipment has not been brought into the program.
- 3.4 Given current financial circumstances, I examined the option that ICT equipment is not updated until it actually fails. The SIC's ICT service has indicated that this would lead to a deterioration in the service available and the eventual need to withdraw from the service level agreement to provide support. The benefits from the common system will be lost. Consequently I do not see this as a satisfactory option.

4. Funding options

- 4.1 There is a service need to replace the ICT equipment at Market House. The estimated cost is £19,750. The issue is where should the money come from? Last year, 2009/10, the Trust received £25,285 from VAS, as repayment of surpluses. One option is that £19,750 of this money is enhanced (carried forward) into the current year and used to create a budget for this purpose. If this option is favoured by Trustees, I suggest that the budget can be drawn down without the need for a further report.
- 4.2 Trustees have previously agreed that that the Trust should fund replacement ICT equipment for Market House, but that was in 2005. Times are different now, and Trustees may consider that the Trust should provide less than 100% of the funding. For example, if the Trust were to provide 50% of the funding, VAS would need to source

£9,875 from elsewhere or from within the existing budgets of the service users. The 50%:50% split here is intended as an illustration only, but it is the solution that I will recommend as I think it reflects the current financial reality, and is consistent with previous decisions where Trustees have felt unable to provide all of the finance for something needed.

- 4.3 The Executive Officer of VAS has intimated the difficulty in sourcing the additional funding of £9,875. She says, "many organisations within Market House do not have contingencies and would be unable to contribute, VAS is currently operating under its stated reserves policy. External funding agencies have funding deadlines and do not fund I.T. alone and currently one of the organisations within Market House has applied for funding from 12 different agencies and 9 have been refused and awaiting other outcomes. The Executive Officer is in discussions with funders and all are saying their funds are three times oversubscribed."

5. Conclusion

- 5.1 There is a need for replacement ICT equipment at Market House. The equipment will cost £19,750 and the current issue is how should that be paid for?
- 5.2 Generally, Trustees set budgets for running cost grants to the organisations where we fund core costs that include provision for replacement ICT equipment. This has not been done with respect to Market House. As well as dealing with the immediate issue, it would be useful to include a long term solution in the program.

6. Financial Implications

- 6.1 Either of the alternative recommendations below, if adopted, will add to the Trust's budget for 2010/11, by carrying forward returned funds from 2009/10.

7. Recommendation

- 7.1(a) I recommend that Trustees agree to fund 50% of the cost for the replacement of ICT equipment at Market House and make additional provision of up to £9,875 in the 2010/11 budgets to do so, by enhancing (carrying forward) budget resulting from surplus grants previously repaid by VAS.

OR

- 7.1(b) Alternatively, Trustees may wish to provide all of the necessary funding, £19,750. In which case I recommend that Trustees agree to make additional provision of up to £19,750 in the 2010/11 budgets to do so, by enhancing budget resulting from surplus grants previously repaid by VAS.
- 7.2 I recommend that Trustees agree that any budget set for this purpose be drawn down without the need for a further report and ask its officers to agree with VAS how replacement ICT equipment for Market House should be provided for in the future.

REPORT**To:** Shetland Charitable Trust

24 June 2010

4.

From: General Manager

Report: CT1006045

Planned Maintenance Programme - Slippage**1. Introduction**

- 1.1 This report is presented to inform Trustees of slippage in the Planned Maintenance Programme, and to request that budget from 2009/10 is carried forward to 2010/11, to match the projected expenditure.

2. Background

- 2.1 The Trust funds a programme of maintenance works to buildings which were either built or acquired using Trust funding. Shetland Recreational Trust, Shetland Amenity Trust, Shetland Arts and the Swan Trust receive their funding in two instalments, and are responsible for implementing their own maintenance programmes.
- 2.2 Voluntary Action Shetland and the Trust itself have service level agreements with Shetland Islands Council to devise and implement their programmes of works.

3. ProposalVoluntary Action Shetland

- 3.1 VAS owns and occupies Market House, which acts as a centre for the voluntary sector in Shetland. A defect has been identified which means that the harling will have to be replaced. This job will require scaffolding, so it makes sense to paint the windows at the same time. An estimate of £30,322 has been received for this job.
- 3.2 VAS has an underspend from 2009/10 of £24,646, which will go some way towards funding this project. The rest of the funding will be found from savings in the current year's budget.

22-24 North Road

- 3.3 The Trust decided to undertake some reorganisation of its internal office space to suit its business, resulting in a more open working environment, and a larger board room. Some of the funding had been allocated in 2009/10 but work did not commence until 2010/11.

It is proposed to bring forward some £8,280 underspend (which includes a small underspend on Springfield holiday chalet) to help finance this work. Early indications are that the total cost is well under the £20,000 earmarked for the work, and the job has been completed with minimal disruption.



4. Financial Implications

4.1 All these funds are already included in the Trust's budget.

5. Recommendation

5.1 Trustees are recommended to approve the carry forward of 009/10 underspends totalling £32,926 to 2010/11, for the purposes outlined in paragraph 3 above.

Reference: EM/TA12

Report Number CT1006045-f

REPORT**5.**

To: Shetland Charitable Trust

24 June 2010

From: General Manager

Report: CT1006046

Independence at Home Scheme Repayment**1. Introduction**

1.1 This report is presented to ask Trustees to write off a small balance of a repayment in terms of the Independence at Home Scheme (IAHS).

2. Background

2.1 At their meeting on 5 July 2006, Trustees agreed to require the repayment of £9,710.98 in respect of the repayment of an IAHS grant, as the grantee had died before the grant period had expired (Min Ref CT/59/06). It was later agreed that the family of the grantee would pay in monthly instalments over a three year period.

3. Present Position

3.1 When the family began to undertake some refurbishment to the property, it was discovered that some of the work done under IAHS had not been done properly, and had to be redone. A Clerk of Works has examined the property, and has agreed that the work was defective.

3.2 Some £371.98 remains of the original invoice, and the family have requested that this amount is written off to compensate for the remedial work which has had to be done in respect of the original contract.

4. Financial Implications

4.1 Writing off this balance will result in a loss of £371.98 to the Trust, but this sum does not form part of the Trust's budget.

5. Recommendation

5.1 Trustees are recommended to write off the balance of £371.98 outstanding on this invoice, in recognition of the defect with the work under IAHS.

2

REPORT

To: Shetland Charitable Trust

24 June 2010

6.

From: General Manager

Report: CT1006047

Christmas Grants to Pensioners/ Disabled Persons 2010**1. Introduction**

- 1.1 The purpose of this report is to release the funding for the 2010 Christmas grant.

2. Background

- 2.1 Since 1979, a Christmas grant has been paid to the elderly and disabled of Shetland. Criteria have varied over the years. Trustees decided on 28 May 2010 to target the grant towards those who had the greatest financial need. The amount of the grant was fixed at £300, and no adjustment is to be made for inflation.
- 2.2 HM Revenue and Customs (HMRC) has agreed that the grant to pensioners qualifies as a charitable payment. The grants to disabled persons are not means tested, so HMRC has decreed that tax will be payable on 73.1% of the grants. This is based on statistics which indicate that 26.9% of the population are in receipt of means tested benefits. However from declarations by disabled grantees, the percentage of grantees in receipt of qualifying benefits is much higher. It is therefore likely that the proportion liable to tax will be considerably less, which could result in a further saving of over £7,000.

3. Proposal

- 3.1 It is proposed to pay a Christmas grant in 2010, using similar criteria as was agreed for 2009. One change is that the age at which women become eligible for state pension is gradually being increased over the next five years to be the same as for men. This means that for a woman to receive the state pension before the

qualifying date of 30 November 2010 she would need to have been born before 6 August 1950. This change is reflected in the criteria set out in Appendix 1.

4. Financial Implications

4.1 The outturn for 2009 is shown in the table below:-

	£
Grants	503,400
Administration	4,795
Tax (estimated on HMRC %)	23,848
Total	£532,043

4.2 A budget of £578,000 has been set aside for this purpose in 2010/11.

5. Recommendation

5.1 Trustees are asked to approve the release of the funding for the 2010 Christmas grant, and to agree to pay the 2010 Christmas grant in accordance with the criteria attached as Appendix 1.

Reference: EMA/DA09

Report Number CT1006047-f

SHETLAND CHARITABLE TRUST
GRANT TO PENSIONER / DISABLED PERSONS

The Shetland Charitable Trust will be making a grant of £300 to pensioners, disabled adults and disabled children in December of 2010. Applicants for these grants must be domiciled and have been resident in Shetland since 30 November 2009.

Pensioners

To qualify for the grant a Pensioner must:-

- be aged 60 or over on 5 August 2010 **AND**
- be in receipt of either pension credit and/or housing benefit and/or council tax benefit on 30 November 2010.

Disabled Adults

A "Disabled Adult" is defined as a person aged 16 years or over and under state pension age on 30 November 2010 who is disabled / long term sick in line with DWP regulations as follows:

Adults in receipt of

- Incapacity Benefit at the Long Term Rate i.e. after 52 weeks.
- Employment & support allowance with limited capability for work for a continuous qualifying period of 52 weeks
- Disability Living Allowance High Rate Care Component.
- Disability Living Allowance Middle Rate Care **and** High Rate Mobility Component
- IB Credits (formerly National Insurance Credits) for 52 weeks (Adults disallowed Incapacity Benefit owing to insufficient National Insurance contributions).
- Severe Disablement Allowance.
- Income Support **AND** in receipt of the Disability Premium.
- Industrial Injuries Pension (adults below pensionable age, who are not in paid employment).
- Registered Blind on the Local Authority Blind and Partially Sighted Register

Disabled Children

A "Disabled Child" is defined as a person aged 15 years or under and is in receipt of any of the following benefits on 30 November 2010:

- Disability Living Allowance Middle Rate Care **and** High Rate Mobility Component
- Disability Living Allowance High Rate Care Component
- Registered Blind on the Local Authority Blind and Partially sighted Register.



REPORT

To: Shetland Charitable Trust

24 June 2010

7.

From: General Manager

Report: CT1006058

Risk Management – Annual Review

1 Introduction and Key Decisions

- 1.1 Trustees are asked to consider the Risk Management Assessment, and agree the potential risks which have been identified, the likelihood of them occurring, the severity of impact (should they occur) and the action list which identifies the steps which need to be taken to mitigate those risks.

2 Background

- 2.1 The most recent Statement of Recommended Practice (SORP) for the preparation of the Trust's Annual Report and Accounts requires the Trust to make a statement confirming that:

"...the major risks to which the charity is exposed, as identified by the trustees, have been reviewed and systems have been established to mitigate those risks."

- 2.2 Although many aspects of Risk Management are already imbedded in the management of the Trust's business, it is considered good practice to adopt a formal, systematic evaluation of risk on a regular basis.

3 Risk Management Framework

- 3.1 The Risk Management Assessment for the Trust is included at Appendix 1. The potential risks facing the Trust, are considered under the following headings:

- Governance and Management
- Operational Risks
- Financial Risks
- Environmental or External Factors and
- Compliance Risks (laws and regulations)

3.2 Appendix 1 also explains the potential impact of each of the risks identified, should that event occur.

3.3 The next step is to consider the likelihood of that potential risk occurring. The definitions used are:

Descriptor	Description
Almost certain	I would not be at all surprised if this happened within the next few months
Likely	I think this could occur sometime in the coming year or so
Possible	I think this could maybe occur at some point, but not necessarily in the immediate future
Unlikely	I would be mildly surprised if this occurred, but cannot entirely rule out the possibility
Rare	I would be very surprised to see this happen, but cannot entirely rule out the possibility

3.4 It is also then necessary to think about how severe the impact will be on the business of the Trust, should the event occur. The severity of impact has been categorised from "insignificant" to "catastrophic" using the following classifications:

- Insignificant
- Minor
- Significant
- Major
- Catastrophic

for their potential impact on: personal safety; property loss or damage; failure to provide statutory service or breach of legal requirements; financial loss or increased cost of working; disruption in service; personal privacy infringement; environmental; community and embarrassment.

3.5 The Risks are then plotted on a Residual Risk Rating Matrix and, for simplicity, the matrix classifies risks as either red, amber or green. The degree of urgency and importance increases as you move along the matrix from a "rare and insignificant" risk to an "almost certain catastrophic" risk. This is the scoring system that was used.

Residual Risk Rating Matrix: Framework

FREQUENCY

	Rare	Unlikely	Possible	Likely	Almost Certain
Insignificant				4	
Minor			6	8	
Significant		6	9		
Major	4	8			
Catastrophic					

- 3.6 This is the number of Risks which have been identified for the Trust in each category, based on the severity of impact and the likelihood of occurrence.

Residual Risk Rating Matrix: Shetland Charitable Trust

FREQUENCY

	Rare	Unlikely	Possible	Likely	Almost Certain
Insignificant				0	
Minor			0	1	
Significant		7	1		
Major	1	1			
Catastrophic					

- 3.7 The Trust has previously identified 32 potential risks, which may impact on the business of the Trust. In this review, 1 has been classified as Red, 11 as Amber and 20 as Green.
- 3.8 Priority will be given to tackling any issue which has a High likelihood of occurring and a significant impact on service delivery should it occur. Only one Red risk was identified, and none was in the "catastrophic" category.

4 Financial Implications

- 4.1 There are no financial implications associated with this report.

5 Recommendations

5.1 I recommend that Trustees

- (a) agree the Risk Management Assessment set out in Appendix 1;
- (b) note that progress on the actions will be reported to Trustees, from time to time; and
- (c) agree that the major risks to which the charity is exposed, as identified by the trustees, have been reviewed and systems have been established to mitigate those risks.

General Manager
Shetland Charitable Trust
8 June 2010

Report No CT1006058-f
File: TA20

Potential risk	Potential impact	Likelihood of occurrence	Severity of Impact	Steps to mitigate risk
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Governance and Management

<p>The charity lacks direction, strategy and forward planning [GREEN]</p>	<ul style="list-style-type: none"> The charity drifts with no clear objectives, priorities or plans. The relationship between what should be provided as core services and what the Trust should support as valued added services remains unclear. Issues are addressed piecemeal with no strategic reference. Needs of beneficiaries not fully addressed. Financial management difficulties. Loss of reputation 	<p>Unlikely</p>	<p>Minor</p>	<ul style="list-style-type: none"> Review Corporate Plan [ACTION] The Trust has a long term approach to financial planning, which feeds a 3-Year Budget Strategy Regular Management Accounts and Investment Reports are presented to Trustees A system of service performance monitoring has been established the Annual Report
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Potential risk	Potential impact	Likelihood of occurrence	Severity of Impact	Steps to mitigate risk
Trustee body lacks relevant skills or commitment [AMBER]	Charity becomes moribund or fails to achieve its purpose Decisions are made by-passing the Board Resentment or apathy amongst staff Poor value for money on service delivery	Unlikely	Significant	<ul style="list-style-type: none"> Skills Review Competence Framework and Job Descriptions Trustee Training – induction and ongoing Trustees to be encouraged to access national organisations/websites etc.
Board of Trustees dominated by one or two individuals or by connected individuals [AMBER]	<ul style="list-style-type: none"> Decisions may be taken outside of Trustee body External political interference Conflicts of interest may arise Pursuit of personal agendas Culture of secrecy and deference Arbitrary over-riding of control mechanisms 	Unlikely	Significant	<ul style="list-style-type: none"> Understanding of trust law. Protocol for disclosure of potential conflicts of interest in place. Procedures for not participating in certain decisions in place. Procedural framework for meetings and recording decisions

Potential risk	Potential impact	Likelihood of occurrence	Severity of Impact	Steps to mitigate risk
Trustees are benefiting from charity (eg remuneration) [GREEN]	Reputation, moral and ethos Impact on overall control environment Conflicts of interest Regulatory action	Rare	Minor	<ul style="list-style-type: none"> Ensure legal authority for payment or benefit
Conflicts of Interest [RED]	From all SIC councillors being Trustees of the SCT. From Trustees of the SCT being appointed by the Council as Trustees / Directors on Council created Trusts/Companies. Charity unable to pursue its own interests and agenda Decisions may not be based on relevant considerations Impact on reputation	Likely	Significant	<ul style="list-style-type: none"> Understanding of Trust Law Review of Governance Protocol for disclosure of potential conflicts of interest Procedures for standing down on certain decisions.

Potential risk	Potential impact	Likelihood of occurrence	Severity of Impact	Steps to mitigate risk
Organisational structure [GREEN]	<ul style="list-style-type: none"> Lack of information flow and poor decision making Remoteness from operational activities Uncertainty as to roles and duties. Decisions made at inappropriate level or excessive bureaucracy 	Rare	Insignificant	<ul style="list-style-type: none"> Organisational chart and clear understanding of roles and duties Delegation and monitoring consistent with good practice and constitutional or legal requirements Review of structure and constitutional change
Activities potentially outside objects, powers or terms of gift (restricted funds) [GREEN]	<ul style="list-style-type: none"> Loss of funds available for beneficiary class Potential for breach of trust and regulatory action Taxation implications (if non-qualifying expenditure) 	Rare	Significant	<ul style="list-style-type: none"> Protocol for reviewing new projects to ensure consistency with objects, powers and Budget Strategy Legal adviser
Loss of key staff [AMBER]	<ul style="list-style-type: none"> Experience or skills lost. Operational impact on key <i>services and activities</i> 	Possible	Significant	<ul style="list-style-type: none"> Documentation of systems, plans and projects.

Potential risk	Potential impact	Likelihood of occurrence	Severity of Impact	Steps to mitigate risk
Loss of key staff (continued) [AMBER]	projects and priorities. <ul style="list-style-type: none"> Loss of contact base and corporate knowledge. 			<ul style="list-style-type: none"> Training programmes. Notice periods and handovers. Recruitment processes
Reporting to trustees (accuracy, timeliness and relevance) [GREEN]	<ul style="list-style-type: none"> Inadequate information resulting in poor quality decision making. Failure of Board to fulfil its control functions. Board becomes remote and ill informed. 	Rare	Minor	<ul style="list-style-type: none"> Proper strategic planning, objective setting and budgeting processes. Timely and accurate service performance reporting. Timely and accurate financial reporting. Proper project assessment and authorisation procedures. Regular contact between trustees and their manager

Potential risk	Potential impact	Likelihood of occurrence	Severity of Impact	Steps to mitigate risk
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Operational Risk

Contract risk [GREEN]	<ul style="list-style-type: none"> Unclear contractual / partnership relationship with funded organisations Potential indirect subsidy of public provision. 	Unlikely	Minor	<ul style="list-style-type: none"> Application Form / Service Level Agreement with funded organisations. Performance Monitoring arrangements
Service provision – Customer satisfaction [GREEN]	<ul style="list-style-type: none"> Beneficiary complaints. Negligence claims. Reputational risks. 	Unlikely	Minor	<ul style="list-style-type: none"> Service performance monitoring procedures. Complaints procedures.
Project or service delivery and development [GREEN]	<ul style="list-style-type: none"> Compatibility with SCT objects, plans and priorities. Inadequate assessment of need Funding and financial viability and sustainability 	Unlikely	Minor	<ul style="list-style-type: none"> Application Forms / Service Level Agreements Role of Service Co-ordinator Performance monitoring procedures.

Potential risk	Potential impact	Likelihood of occurrence	Severity of Impact	Steps to mitigate risk
Capacity and Use of Resources, including tangible fixed assets [GREEN]	<ul style="list-style-type: none"> Under-utilised or lack of building / office space Spare capacity not being utilised Buildings not properly maintained 	Unlikely	Minor	<ul style="list-style-type: none"> Building and Plan Inspection Programme Repairs and Maintenance Programme
Security of assets [GREEN]	<ul style="list-style-type: none"> Loss or damage. Theft of assets. Infringements of intellectual property rights. 	Unlikely	Minor	<ul style="list-style-type: none"> Review of security. Asset Register Facilities Management arrangements Safe custody arrangements for title documents. Insurance Reviews

Potential risk	Potential impact	Likelihood of occurrence	Severity of Impact	Steps to mitigate risk
<p>Employment issues [GREEN]</p>	<ul style="list-style-type: none"> • Employment disputes • Health and Safety issues • Claims for injury, stress, harassment, unfair dismissal • Equal opportunities issues • Adequacy of staff training • Child protection issues • Low Morale 	<p>Unlikely</p>	<p>Minor</p>	<ul style="list-style-type: none"> • Recruitment processes • Job training and development • Job descriptions / tasks • Reviews [ACTION] • Health and safety training
<p>Health, Safety and Environment [GREEN]</p>	<ul style="list-style-type: none"> • Staff injury • Product or service liability • Ability to operate 	<p>Unlikely</p>	<p>Minor</p>	<ul style="list-style-type: none"> • Compliance with law and regulation • Training • Risk Assessments and Reporting procedures

Potential risk	Potential impact	Likelihood of occurrence	Severity of Impact	Steps to mitigate risk
Disaster recovery and planning – business continuity [AMBER]	<ul style="list-style-type: none"> • Computer system failures or loss of data. • Destruction of property, equipment, records through fire, flood or similar damage. 	Unlikely	Minor	<ul style="list-style-type: none"> • IS recovery plan. • Data back up procedures and precautions. • Disaster recovery plan for alternative accommodation. • Insurance Cover
Procedural and systems documentation [GREEN]	<ul style="list-style-type: none"> • Lack of awareness of procedures and policies. • Actions taken without proper authority. 	Rare	Insignificant	<ul style="list-style-type: none"> • Proper documentation of policies and procedures. • Audit and review systems.
Information Technology [GREEN]	<ul style="list-style-type: none"> • Systems fail to meet operational need. • Failure to innovate or update systems. • Loss/corruption of data • Lack of technical support. 	Rare	Insignificant	<ul style="list-style-type: none"> • Use of service level agreements and support contracts. • Disaster recovery procedures.

Potential risk	Potential impact	Likelihood of occurrence	Severity of Impact	Steps to mitigate risk
Insurance Cover Inadequate [GREEN]	<ul style="list-style-type: none"> Financial loss 	Rare	Insignificant	<ul style="list-style-type: none"> Service Level Agreement (Insurance and Risk) Annual Insurance Review

Financial Risks

Budgetary control and financial reporting [AMBER]	<ul style="list-style-type: none"> The current spending programme is not affordable or sustainable Budget does not match key objectives and priorities. Decisions made based on unreliable data. 	Unlikely	Significant	<ul style="list-style-type: none"> Achieve targets for spending reduction set out in 3 year Budget Strategy. Budgets linked to business planning and objectives. Timely and accurate monitoring and reporting for all aspects of the Trust's business.
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Potential risk	Potential impact	Likelihood of occurrence	Severity of Impact	Steps to mitigate risk
Protection of Reserves / Endowment and Dependency on income sources [AMBER]	<ul style="list-style-type: none"> • The current spending programme is not affordable or sustainable • Inability to meet commitments or planned objectives. • Financial loss through inappropriate or speculative investments • Financial loss through lack of investment advice or lack of diversity • Cash flow difficulties through lack of liquidity • Inability to meet commitments or key objectives. • Ability to function as going concern. 	Unlikely	Major	<ul style="list-style-type: none"> • Reserves / Investment Strategy • Investment Adviser / Fund Management contracts • 3 Year Budget Strategy • Regular Reporting of Investment Performance • Performance review of beneficiaries

Potential risk	Potential impact	Likelihood of occurrence	Severity of Impact	Steps to mitigate risk
Inappropriate or loss-making non-charitable trading activities [AMBER]	<ul style="list-style-type: none"> Resources and energy diverted from core activities. Regulatory action, and accountability. Reputational risk if publicised. 	Unlikely	Significant	<ul style="list-style-type: none"> Adequate authorisation procedures for any funding provided by charity (prudence, proper advice, investment criteria) Legal Adviser
Fraud or error [AMBER]	<ul style="list-style-type: none"> Financial loss. Reputational risk. Regulatory action 	Rare	Major	<ul style="list-style-type: none"> Financial control procedures. Segregation of duties. Authorisation limits. Security of Assets Insurable Risks

Environmental / External factors

Contaminated Land [AMBER]	<ul style="list-style-type: none"> Potential financial and other liabilities 	Unlikely	Significant	<ul style="list-style-type: none"> Restoration clauses
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Potential risk	Potential impact	Likelihood of occurrence	Severity of Impact	Steps to mitigate risk
Adverse publicity / Public Perception [AMBER]	<ul style="list-style-type: none"> Impact on beneficiaries Impact on moral of staff. 	Unlikely	Significant	<ul style="list-style-type: none"> Complaints Procedure Media Strategy and Support
Demographic consideration [AMBER]	<ul style="list-style-type: none"> Impact of demographic distribution of beneficiaries. Increasing beneficiary class – older people and people in need 	Likely	Minor	<ul style="list-style-type: none"> Profiling and understanding of beneficiary needs Use of actuarial analysis to establish future funding requirements
Role of the Voluntary Sector [GREEN]	<ul style="list-style-type: none"> Failure to secure value for money from current arrangements 	Possible	Insignificant	<ul style="list-style-type: none"> Application Forms Performance Monitoring Financial and Management Reports and Information

Compliance Risk (law and regulation)

Potential risk	Potential impact	Likelihood of occurrence	Severity of Impact	Steps to mitigate risk
<p>Compliance with legislation and regulations</p> <ul style="list-style-type: none"> • Trust Law • Data Protection • Employment Law • Human Rights • Disability Discrimination <p>[AMBER]</p>	<ul style="list-style-type: none"> • Fines or penalties. • Action for negligence. • Reputational risks 	Unlikely	Significant	<ul style="list-style-type: none"> • Identify key legal and regulatory requirements. • Allocate responsibility for key compliance procedures. • Service Level Agreements • Legal Adviser
<ul style="list-style-type: none"> • Compliance with Charity Law <p>[GREEN]</p>	<ul style="list-style-type: none"> • Action for negligence. • Reputational risks 	Rare	Significant	<ul style="list-style-type: none"> • Identify key legal and regulatory requirements • Legal Adviser
<ul style="list-style-type: none"> • Regulatory reporting requirements <p>[GREEN]</p>	<ul style="list-style-type: none"> • Regulatory action. • Reputational risks. 	Rare	Minor	<ul style="list-style-type: none"> • Compliance procedures and allocation of staff responsibilities.

Potential risk	Potential impact	Likelihood of occurrence	Severity of Impact	Steps to mitigate risk
Professional advice [GREEN]	<ul style="list-style-type: none"> • Errors or omissions • Failure to meet deadlines • Failure to address local service needs or compliance risks. 	Rare	Significant	<ul style="list-style-type: none"> • Service Level Agreements • Contracts • Legal Adviser / External Audit arrangements. • Insurance provision

REPORT

To: Shetland Charitable Trust

24 June 2010

8.

From: General Manager

Report: CT1006059

**General Administration
Complaints Procedure****1. Introduction**

- 1.1 This report is presented to formalise the complaints procedure which is already used informally by the Trust.

2. Background

- 2.1 While reviewing the Trust's Risk Assessment Framework it came to light that the Trust does not have its own written complaints procedure.
- 2.2 In terms of the Trust Deed, Trustees have "the fullest powers of administration of the Trust Fund as if they were absolute owners thereof and beneficially entitled thereto". This means that they are ultimately responsible for all spending decisions by the Trust. The General Manager is responsible for managing the team of staff who work for the Trust.

3. Present Position

- 3.1 A draft Complaints Procedure is attached as Appendix 1, which reflects the roles and responsibilities referred to in paragraph 2.2.

4. Financial Implications

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

5. Recommendation

- 5.1 Trustees are recommended to approve the Complaints Procedure set out in Appendix 1.

Reference: EMA/TA39

Report Number CT1006059-f

.8



Scottish Charity Number SC027025

Complaints Procedure

1. Purpose of the Procedure

1.1 The purpose of the complaints procedure is to ensure that:

- (a) the customer has an easy accessible, straightforward means of making formal representations to the Trust, which offer prompt action and speedy resolution of complaints;
- (b) the customer is confident that his/her complaint is being dealt with effectively and fairly, even if the outcome is not to his/her complete satisfaction;
- (c) the Trust uses complaints positively and takes subsequent action to maintain and improve service quality and responsiveness;
- (d) the Trust demonstrates that it does care and considers the procedure as an important aspect of service delivery.

2. Definition

2.1 An informal complaint is an initial approach by a customer to the Trust outlining dissatisfaction with some aspect of the Trust's service or actions. Such approaches are likely to be made in person or by telephone and sometimes in writing.

2.2 A formal complaint is an expression of dissatisfaction with the action or lack of action taken by the Trust, on a matter which has been previously raised by the customer and where he/she remains dissatisfied with the response received.

3. Categories of Complaint

3.1 The following are categories of complaint, which indicate in general terms the range of complaints that fall within the procedure.

- (a) Dissatisfaction with the way Trust policies are being carried out.
- (b) Complaints regarding employee/Trustee attitudes and actions of individual employees/Trustees in dealing with Trust matters.

4. Initial Stages

- 4.1 Officers who provide services to customers will deal with initial approaches by customers and attempt to resolve their concerns. Such approaches are likely to be made in person or by telephone, and, less frequently, in writing.
- 4.2 Often such an approach is not a complaint but a request for action, information or reporting a problem. When identified as such, it should be actioned by staff in the normal way, or referred to the relevant officer for action to be taken.
- 4.3 It may well be possible to provide information or arrange action which will satisfy the customer. At this stage, the emphasis should be on resolving the complaint whenever possible.

5. Formal Complaint

- 5.1 This stage will come into operation when the customer clearly indicates that he/she remains dissatisfied with the Trust's previous response on an issue which falls within the remit of the procedure. Written details of the complaint will be accepted as a formal complaint provided that the matter has first been raised at officer level, but has not been resolved to the satisfaction of the complainant.
- 5.2 All formal complaints will be addressed to the General Manager, who will acknowledge receipt of the complaint within 3 working days. A full reply to the complaint would normally be provided within 15 working days, failing which a further letter would be sent explaining the delay and indicating when it was anticipated a reply would be available.

6. Further Stages

- 6.1 It is hoped that the vast majority of complaints would be resolved in these two stages. However, for any which remain unresolved, a further stage is available. If the customer was still not satisfied, the customer can request that his/her complaint is put before the Board of Trustees.
- 6.2 In certain circumstances, if all else fails, it may be appropriate to complain to the Office of the Scottish Charities Regulator (OSCR). More details can be found on OSCR's website, www.oscr.org.uk.

REPORT

9.

To: Shetland Charitable Trust

2 June 2010

From: Financial Controller

Report: CT1006048

Payments to Trustees in the year to 31 March 2010**1. Introduction**

1.1 This report is presented to show the payments which have been made to Trustees in the year to 31 March 2010, prior to their publication in the local press.

2. Background

2.1 Trustees are entitled by law and in terms of their Trust Deed, to "reimburse the Trustees out of the Trust Fund for all expenses reasonably incurred by them in connection with the administration of the Trust". The Trust has also agreed to pay remuneration costing £5,000 and £2,500 to the Chair and Vice Chair respectively, in recognition of the work they carry out for the Trust.

2.2 At their meeting on 28 May 2009, Trustees requested that the payments made to Trustees are published (Min Ref CT/39/09).

3. Present Position

3.1 A spreadsheet is attached as Appendix A, showing the remuneration and expenses which have been paid to Trustees in the year to 31 March 2010, totalling £9,874.34.

4. Financial Implications

4.1 A budget of £10,000 has been set aside for payments to Trustees.

5. Recommendation

5.1 This report is for noting.

Reference: EMA/TA21/2

Report Number CT1006048-f

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Appendix A

Payments to Trustees for the year to 31 March 2010						
Name	Position	£ Remuneration	£ Travel	£ Subsistence	£ Total	
Mr W Manson	Chairman	4,110.77	1,274.64	15.75	5,401.16	
Mr J Henry	Vice Chairman	2,038.27			2,038.27	
Mrs L Baisley	Trustee		341.44		341.44	
Mr A Cooper	Trustee		68.40		68.40	
Mr A Doull	Trustee		149.30		149.30	
Mrs F Grains	Trustee		296.54		296.54	
Mrs I Hawkins	Trustee		200.67		200.67	
Mr R Henderson	Trustee		515.58	25.00	540.58	
Mr R Nickerson	Trustee		76.00		76.00	
Mr F Robertson	Trustee		316.13		316.13	
Mr J Simpson	Trustee		445.85		445.85	
Totals		6,149.04	3,684.55	40.75	£9,874.34	

REPORT**10.**

To: Shetland Charitable Trust

24 June 2010

From: General Manager

Report No. CT1006049

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 - £982

- 2.1 The following community development grants were approved by the Head of Service, Community Development in the period from 24 April to 4 June 2010: -

Name of Organisation	Grant Approved (£)
Fetlar Community Association	<u>982</u>

3. Community Arts Grants - £2,806

3.1 The following community arts grants were approved by the Head of Service, Community Development in the period from 24 April to 4 June 2010: -

Name of Organisation/ Individual	Grant Approved (£)
Global Yell Ltd	1,500
Shetland Needleworkers	369
Sandra Spence (on behalf of Zoe Spence)	385
Thomas Cockayne	<u>552</u>
	<u>2,806</u>

4. Recommendation

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

Shetland Charitable Trust
Date: 3 June 2010
Our Ref: AJ/DA1

Report Number CT1006049

REPORT

11.

To Shetland Charitable Trust

18 March 2010

From: General Manager

Report No. CT1006050

RECOMMENDED DISBURSEMENTS – SOCIAL CARE**1. Background**

- 1.1 This report concerns approvals by the Council's Head of Community Care in the period to 4 June 2010, in terms of Report Number CT/030/94, which was approved by the Trustees on 8 April 1994.

2. Social Assistance Grant Scheme - £2,522.88

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

	(£)
9 Social Assistance Grants of up to £2,000 (Appendix A)	2,522.88

- 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 following approval by the Head of Community Care: -

a) the Social Assistance Grants referred to in paragraph 2.1, totalling	£2,522.88
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Shetland Charitable Trust
Date: 14 June 2010

Ref: AJ/DS1

Report No: CT1006050

SOCIAL ASSISTANCE GRANT SCHEME as at 4 June 2010

	£
Funds available in 2010/2011	35,000.00
Less previously allocated	777.40

Less the following:-

<u>Reference</u>	<u>Amount</u>
10/11 06	£ 575.98
10/11 07	£ 207.00
10/11 08	£ 149.85
10/11 09	£ 592.20
10/11 10	£ 114.00
10/11 11	£ 213.85
10/11 12	£ 155.00
10/11 13	£ 375.00
10/11 14	£ 140.00

(9) Approvals by Executive Director, Education and Social Care **2,522.88**

Balance of Funds remaining **31,699.72**

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

REPORT

To: Shetland Charitable Trust

24 June 2010

12.

From: Financial Controller

Report: CT1006051

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 April 2010 to 30 April 2010.

2.2 Appendix B lists the investment decisions made by BlackRock Investment Management (UK) Limited during the period from 1 April 2010 to 30 April 2010.

2.3 Schroder Investment Management Limited made no purchases or sales during the period from 1 April 2010 to 30 April 2010.

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 both the previous financial year and current financial year to date:

2010/11 to 28 May 2010

	£ million
Market Value at start	180.9
Market Movement	(9.3)
Injection/(Withdrawal)	(4.3)
Market Value at close	<u>167.3</u>

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

4. Recommendation

4.1 The Trustees are asked to note this report.

15.

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) 4% TSY GLT 07/03/22 GBP0.01	QF GB GB	26/04/2010	2,539,000.00	2,477,302.30
TREASURY BNDS 4.75% 07/09/2015	QF GB GB	20/04/2010	2,264,000.00	2,472,061.60
UK(GOVT OF) 4% TSY GLT 07/03/22 GBP0.01	QF GB GB	22/04/2010	1,089,000.00	1,062,537.30
UK(GOVT OF) 4.75% STK 07/09/2015 GBP100	QF GB GB	21/04/2010	761,000.00	831,620.80
INSIGHT GLOBAL II EMERGING MARKET DEBT FD CLS	QF UT IE	30/04/2010	65,000.00	789,945.00
INSIGHT INV DISCRE UK CRP ALL MAT BD GROSS S	QF UT GB	15/04/2010	0.00	476,247.17
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	27/04/2010	275,000.00	293,129.09
INSIGHT LDI SOLUTI HIGH YIELD BOND FD CLS'S'GB	QF UT IE	30/04/2010	30,000.00	259,104.00
ILF GBP LIQUIDITY FD	DEP	16/04/2010	120,000.00	120,000.00
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	01/04/2010	83,000.00	99,585.07
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	22/04/2010	61,000.00	66,814.37
ILF GBP LIQUIDITY FD	DEP	01/04/2010	144.14	144.15
TOTAL UNITED KINGDOM				<u>8,948,490.85</u>

ERSEAS

NO OVERSEAS INVESTMENTS PURCHASED

TOTAL 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 22/11/27 GBP	QF GIL GB	27/04/2010	126,000.00	148,492.13	7,407.91
UK(GOVT OF) 1.25% I/L STK 22/11/55 GBP	QF GIL GB	01/04/2010	26,000.00	38,446.11	5,534.63
UK(GOVT OF) 1.25% I/L STK 22/11/27 GBP	QF GIL GB	01/04/2010	49,000.00	59,313.16	4,447.07
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	22/04/2010	45,000.00	53,348.74	2,916.06
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	27/04/2010	125,000.00	142,576.20	2,485.42
UK(GOVT OF) 2.5% I/L STK 16/8/13 GBP100	QF GIL GB	22/04/2010	4,000.00	10,917.60	1,307.79
ILF GBP LIQUIDITY FD	DEP	27/04/2010	20,000.00	20,000.00	-0.00
HOSPITAL CO DARTFO 3.003%-IDX LKD 31/10/31	GBF QF CIL GB	30/04/2010	1,168.60	1,168.60	-26.61
TREASURY BNDS 4.75% 07/09/2015	QF GB GB	26/04/2010	2,264,000.00	2,466,175.20	-5,886.40
UK(GOVT OF) 6.25% STK 25/11/2010 GBP100	QF GB GB	20/04/2010	2,348,000.00	2,427,597.20	-13,168.05
UK(GOVT OF) 4.25% STK 07/12/2055 GBP100	QF GB GB	21/04/2010	861,000.00	820,102.50	-19,029.11
UK(GOVT OF) 4% GILT 22/1/2060 GBP0.01	QF GB GB	22/04/2010	1,168,000.00	1,052,368.00	-43,572.84
TOTAL UNITED KINGDOM				<u>7,240,505.44</u>	<u>-57,584.13</u>

OVERSEAS

NO OVERSEAS INVESTMENTS SOLD

TOTAL OVERSEAS 0.00 0.00

BGI REPORT - PURCHASES

NAME OF SECURITY	AREA	DATE	NUMBER OF SHARES	PURCHASE PRICE (£)
	QE = quoted equity UE = unquoted equity			

UNITED KINGDOM

NO UK INVESTMENTS PURCHASED

TOTAL UNITED KINGDOM	<u>0.00</u>
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OVERSEAS

NO OVERSEAS INVESTMENTS PURCHASED

TOTAL OVERSEAS	<u>0.00</u>
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BGI REPORT - SALES

NAME OF SECURITY	AREA	DATE	NUMBER OF SHARES	SELLING PRICE (£)	PROFIT/ (LOSS) (£)
	QE = quoted equity UE = unquoted equity				

UNITED KINGDOM

BLACKROCK ADV (UK) CHARITRAK COMMON	INVEST UE UT GB	14/04/2010	283,479.96	2,900,000.00	233,003.44
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TOTAL UNITED KINGDOM	<u>2,900,000.00</u>	<u>233,003.44</u>
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OVERSEAS

BLACKROCK AM (IE) BGI PACIFIC RIM INDEX ACC	UE UT IE	14/04/2010	25,711.94	600,000.00	181,645.05
BLACKROCK AM (IE) BGI NORTH AMERICAN IDXNAV	UE UT IE	14/04/2010	120,992.87	1,000,000.00	158,292.22
BLACKROCK AM (IE) IDX SELECTION EURO EX UK AC	UE UT IE	14/04/2010	38,672.17	500,000.00	47,530.12

TOTAL	<u>2,100,000.00</u>	<u>387,467.39</u>
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REPORT**13.**

To: Shetland Charitable Trust

24 June 2010

From: Financial Controller

Report: CT1006054

Viking Energy – Progress Report**1. Introduction**

- 1.1 The purpose of this report is to provide Trustees with an update on the Viking Energy wind farm project.
- 1.2 There has been a series of reports and updates to the Trustees since the Trustees took the decision to participate in the project in September 2007. I have included a diary of them as appendix A. This report continues that approach, and focuses on financial and administrative issues. Of course, there are other aspects to the project and these will be discussed on other days.

2. Background

- 2.1 Trustees have committed up to £3 million to fund a thorough evaluation of the project to the stage where further decisions will be needed on whether to build the wind farm or not (min ref CT/52/07). The shareholders in Shetland Aerogenerators Limited, which operates the Burradale wind farm have committed up to £0.333 million and together with the Trust own Viking Energy Limited, the Shetland part of a 50:50 partnership with Scottish and Southern Energy plc, SSE, which is taking the project forward. This means that SSE's financial commitment matches that of Viking Energy Limited, i.e. up to £3.333 million.
- 2.2 A key part of the evaluation of the project is the process of achieving consent from the Scottish Government. The developer in its application for consent must demonstrate to the Scottish Government that the project is technically and financially sound and that any environmental consequences are mitigated and are at an acceptable level.
- 2.3 Viking Energy submitted its application for consent a year ago (20 May 2009). Following various comments and objections from statutory consultees, non-statutory consultees and individuals and groups from the Shetland community, it has been agreed that Viking

Energy will submit an addendum to its consent application that is intended to address the comments and objections in the expectation that some of them can then be withdrawn. In the interest of balance, it is fair to say that the project has supporters as well as objectors.

- 13
- 2.4 The addendum is almost complete and, as it will contain the outcome of many compromises, it will undoubtedly feature less turbine sites than the original application. The reduction in turbine numbers must be achieved against a continuing need for Shetland to achieve a critical mass of electricity generation to economically underpin the required connection with the UK's national electricity grid. However, in this report all my figures quoted will flow from the unmodified consent application, and these figures are all in the public domain at present. They are based on 150 turbine sites giving 540 MW of capacity and a capital cost in the region of £800 million. I expect all of these numbers to decrease somewhat with the addendum, but with that warning, they are still useful at this stage.

3. The Viking Energy Partnership, VEP

- 3.1 When the Trust bought out the Shetland Islands Council's interest in the project in September 2007, VEP was already in being. However, a partnership is a good way of constituting this 'joint venture' as the Trust and SSE are exposed to very different tax regimes and a partnership allows separate tax dealings for each partner. VEP is a Scottish Legal Partnership between Viking Energy Limited, VEL, and a subsidiary of SSE. It is governed by a partnership agreement, which deals with the administration, as one might expect. The main points are that all decisions require agreement through a partnership board which has three members from each partner. Each partner only has one vote and each partner takes it in turns to nominate a Chair year by year. As the Chair does not have a casting vote, decisions have to be made with the agreement of both partners. The VEL nominees to the VEP Board are the three Directors of VEL, Bill Manson, Alastair Cooper and Caroline Miller.
- 3.2 One of the decisions of the VEP Board is that my staff and I, here at the Trust, provide accountancy services for VEP, and this has also been useful to me in monitoring Trustees' investment to date. The origins of the Viking Energy Project were two separate projects being brought together, one by Shetland Islands Council (with the Trust buying that interest part way through), and one by SSE. Project costs have been incurred over several years (going back to 2003) by various past and present participants. The partners have agreed that VEP should bear all external costs. These are, principally, the array of third party work needed for the Environmental Impact Assessment, EIA, and other assessments that formed part of the Application for Consent and its Addendum. The partners themselves meet the internal costs (staff, premises, business support). There has been a great deal of work done over the last year to get all the various costs agreed by the partners and

recorded in the accounts of the correct entity. I am pleased to say that this work is completed for VEP.

- 3.3 VEP has a year end of 31 March, and the draft accounts as at 31 March 2010, include all the relevant past costs originally paid by VEL, Shetland Islands Council and various companies owned by SSE, and all have been agreed by the partners. At 31 March 2010 the total VEP expenditure is £2.8 million, financed 50% by VEL and 50% by SSE.
- 3.4 VEP has been fully operational in its own right for six months or so. This means that ongoing cost are met by VEP, which is in turn financed by monthly cash calls on the partners.

4. Viking Energy Limited, VEL

- 4.1 Shetland Charitable Trust agreed to buy the Council's 90% interest in Viking Energy Limited in September 2007. The other 10% of the company is owned by the shareholders of Shetland Aerogenerators. The shareholders provide finance by buying shares and the current position is that the Trust has bought 2,250,000 £1 shares and the minority shareholders have bought 250,000 £1 shares. The minority shareholders are automatically offered one tenth of any new shares, so their proportion remains the same as long as they produce cash to buy the shares. The minority shareholders cannot sell their VEL shares without the agreement of the Trust.
- 4.2 Trustees nominated three Directors, who are Bill Manson, Alastair Cooper and Caroline Miller. The Company Secretary is David Thomson, one of the minority shareholders, and this formally ensures that they are kept informed.
- 4.3 As explained above, VEP bears third party or external costs, with the partners meeting staff and other internal costs such as office rentals, travel costs, IT support etc. At present, four Shetland based people work full time on the project and their costs are met by VEL. As part of the exercise to get all the past project costs (back to 2003) accounted for and borne by the correct body, project costs that are internal costs, and so not attributable to VEP, are in VEL as at 31 March 2010. These amount to £1.1 million, over the seven years.
- 4.4 VEL has been functioning effectively as a financial entity for eighteen months or so, and this means we have completed the move to the model where VEL (and VEP) are active and costs are met directly from where they are borne.
- 4.5 It is proposed in a separate report on today's agenda that the remaining up to £750,000 of the Trust's £3 million investment budget be released to VEL as it is needed. I am not expecting any further request for funding for the evaluation stage, unless the consent application is referred to a public inquiry, provided a determination is made before 31 March 2011.

5. Project Finance

- 5.1 If consent is gained and the project goes ahead a series of contracts will need to be negotiated in detail and put in place covering procurement, construction, finance, and future operation and maintenance arrangements. It is not possible to have detailed negotiation on finance at this stage, as the overall costs will depend on key factors that are still subject to considerable movement, including the number of turbines. This last variable will be fixed if consent is gained and that will trigger the setting of various other key numbers.
- 5.2 It is though possible to have useful and meaningful contact with sources of finance at this stage. I have discussed the project with the Lloyds Banking Group, Royal Bank of Scotland, BNP Paribas Fortis, Barclays and the European Investment Bank, EIB, the last one indirectly through SSE. Although the numbers are not fixed, it helps me to visualise what is possible by simply using £800 million as the total cost. This number comes from the consent application and is likely to be too high, but with that warning, I propose to continue using it in this section of the report.
- 5.3 The first message from the banks is that the project can be financed and that they all want to be seen as a provider of finance to this sort of project. The fact that SSE, a FTSE 100 listed energy company is a partner, has helped my discussions tremendously. We know that Shetland has world class wind, and Burradale has proved it over the past ten years. One of the Burradale turbines, named Betsy, is believed to be the most productive commercial turbine in the world. So the existence of Burradale helps my discussions as well.
- 5.4 What have I learnt? The bulk of the project cost can be met by finance attached to the project itself. Two of the banks have showed me outlines where 77% of the £800 million is raised by project finance. Project finance is contained within the Partnership and needs no security or guarantee from the partners. For this type of project the project finance picks up any overrun costs, this is known as 'non re-course' finance. For this discussion I am going to round the 77% up to 80%. Please remember that the £800 million figure will change and anything in this section of the report is my thinking at present rather than a settled proposal. Using £800 million as the starting point, means project finance of £640 million.
- 5.5 Discussing the details of borrowing £640 million is some way beyond my experience, and at this stage I have mostly left this to SSE. SSE have a good relationship with the European Investment Bank, EIB. SSE recently borrowed €400 million from the EIB for other wind farm projects. One possibility is the EIB lending a similar amount to VEP with the balance of the £640 million coming from a banking 'club' of say eight commercial banks including most of the four banks I have been speaking to directly. A very important point is that the banks do have money to lend, and they are under pressure to lend it, but to 'good' borrowers. The banks see renewables in general as something they want to lend to.

- 5.6 Most of my thoughts, have been about two issues. Where does the rest of the money come from and what happens to the Trust financially in the period between beginning to invest and first receiving returns?
- 5.7 Starting with £800 million (with my various warnings about that figure) and raising £640 million as project finance, leaves £160 million still needed. There are a number of possibilities here, but let us say for today that each partner needs to put in £80 million, and the minority shareholders of VEL put in £8 million, or 10%. The Trust then needs to provide £72 million. The Trust might consider selling some of its shares to raise some finance as I believe they will be worth considerably more than the £1 paid for each, if consent is achieved. Selling shares means the Trust is giving up part of the profits, but this might be reasonable if the purchaser(s) was part of the Shetland Community in some way.
- 5.8 However, I have been thinking about how the Trust might raise £72 million without selling VEL shares. The Trust is large enough at over £200 million to simply use its own cash to invest. This means selling other investments, mainly or wholly stock market shares, to do so. The Trust is also large enough, and with a strong enough balance sheet to borrow some or perhaps all of the £72 million. Two of the four banks I have spoken to have indicated that they would consider lending half of what is required, so £36 million in our example, secured only on the basis of the future income coming to the Trust from the Viking Energy project. This lending, of say £36 million, would require no further security from the Trust. All the banks are keen to discuss loans of, say £36 million, secured on the Trust's portfolio of Government Bonds.
- 5.9 Any form of borrowing has consequences, and there will be detailed negotiations over the interest rates, duration, the possibility of only paying interest for a few years and other issues. However, should the need arise to produce £72 million or something thereabouts I expect to be able to offer Trustees the choice of borrowing it all in some form, borrowing none of it and borrowing say half of it. At this stage the last option looks potentially the most attractive with the Trust borrowing £36 million secured perhaps on the project's income stream alone and providing £36 million as an investment out of its own reserves.
- 5.10 The other area I have been thinking about is what happens to the 'ordinary' finances of the Trust in the period between investment and first return of profit. This period could be as short as three years, but it will be longer than that before the Trust receives back as much cash as it has invested. The borrowing all the £72 million option, leaves the rest of the Trust financially untouched, other than perhaps using the Government Bonds held as security. The Trust could continue investing its £220 million or thereabouts and continue charitable spending at £11 million a year.

5.11 Putting in some of the Trust's own money, say £36 million, and continuing to spend at £11 million a year will require careful monitoring. The Trust's capital available to support annual expenditure will go down by £36 million plus the costs of meeting the shortfall between reduced income and expenditure of £11 million. The reserves are then rebuilt out of income from Viking Energy. I have modelled various possibilities, and the numbers show a manageable situation if I assume steady, average returns from the stock market. That assumption is not valid and I believe that Trustees will need to reduce exposure to volatile shares in some way. Perhaps a straightforward switch to Government Bonds, but there are more sophisticated ways to de-risk. At this stage I simply want Trustees to know that I have been thinking about this issue and discussing it with appropriate advisers and some of the fund managers.

6. Conclusion

6.1 Trustees will be faced with a number of interesting decisions if the Viking Energy project achieves Consent from the Scottish Government. This report contains my thoughts at this stage on some of the financial aspects that may be in prospect.

7. Recommendation

7.1 I recommend that Trustees note this progress report.

Reference: JPG/IS3

Report Number CT1006054

APPENDIX A

Date	What	Subject	Who
24/06/2010	Update Report & Drawdown Report	Finance & Administration	Financial Controller
11/02/2010	Presentation	Finance	Richard Simon-Lewis Lloyds Banking Group
03/11/2009	Presentation and Update report	Construction experience	Morrison Construction And Ecological QS
17/09/2009	Presentation	Project Finance SSE Experience	Philip Soden, SSE
01/09/2009	Reception	General	Ian Marchant, SSE
06/08/2009	Seminar	General	Aaron Priest
02/07/2009	Seminar	General	Aaron Priest
18/03/2009 & 19/2/2009	Drawdown report	Finance	Financial Controller
08/12/2008	Presentation Presentation	Ecology/Peat Economics	David Thomson Stephen Kerr, Avayl
13/11/2008	Verbal Update	General	Financial Controller Aaron Priest
24/10/2008	Investment report	General	Financial Controller
11/09/2008	Presentation Presentation	General SSE position	David Thomson Simon Heyes, SSE
17/09/2007	Report	Up to £3m investment decision	Financial Controller
23/08/2007	Workshop	Finance	Brandon Rennet, SSE

