

Financial Conference



General Manager: Dr Ann Black

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

Our Ref: EMA/TA1/1
Your Ref:

Date: 7 December 2010

Dear Sir/Madam

You are invited to the following meeting:

**Shetland Charitable Trust
Council Chamber, Town Hall, Lerwick
Thursday 16 December 2010 at 10 a.m.**

Apologies for absence should be notified to Louise Adamson on 01595 744555.

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 4 November 2010 (enclosed).

For Decision

1. Annual Report and Accounts for the Year to 31 March 2010. Report enclosed.

For Information

2. Planned Maintenance – Swan Trust
Chairperson's Approval of Additional Funding. Report enclosed.
3. Fund Managers Transactions. Report enclosed.
4. Wind to Heat – SHEAP Ltd. Report enclosed.
5. Future Governance Arrangements for Shetland Charitable Trust – Legal Advice
Update. Report enclosed.

The following items contain **Confidential** information

For Decision

6. Selection and Appointment of a Commercial Lawyer for the Shetland Charitable Trust
Group. Report enclosed.

For Information

7. Sums Due but Unpaid over one Month old as at 30 November 2010. Report
enclosed.
8. Art Therapy - Verbal Update.

REPORT

To: Shetland Charitable Trust

16 December 2010

From: General Manager

Report: CT1012091

Shetland Charitable Trust Annual Report and Accounts for the year to 31 March 2010

1. Introduction

- 1.1 The Annual Report and Accounts for the year to 31 March 2010, 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 strong recovery in the world's markets, with a gain of almost £50 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 fell slightly due to a reduction in one off items. Trustees have set a budget for the current year, 2010/11 that is within the target level of £11 million (in 2009 prices).
- 2.4 The second sheet shows a balance sheet as at 31 March 2010 with the year before as a comparison. The managed funds show a pleasing increase, and overall net assets stand at £217.1 million. The 2010 balance sheet includes £5.7 million as the cost, net of accumulated depreciation, of the Garrison Theatre and the Care Homes. These assets cannot be used to generate returns, and after adjusting for them the Trust has investable net assets of £211.4 million. This is a significant improvement on the position a year earlier, and is in touch with, although still short of, the long term target of having £220 million (in 2009 prices) of investable net assets.
- 2.5 Appendix D is a report from KPMG LLP, which summarises the work by the auditors. It is hoped to produce this report every year, if Trustees find it useful.

3. Financial Implications

- 3.1 Investment returns in 2009/10 have significantly exceeded spending, and this has brought the level of investable net assets up to a level much closer 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 2010;
 - 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/EMA/TA2

Report Number CT1012091-f

Shetland Charitable Trust

Trustees' report and consolidated
financial statements

Charity number SC027025

31 March 2010

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Chair's introduction

This year has been one of the best, in investment terms, in the history of Shetland Charitable Trust. The world's markets recovered strongly during the year; and the Trust's local investments, SLAP and SHEAP, were profitable again and show every prospect of remaining so. The Trust also continued its investment in the Viking Energy project, within the budget agreed, to take it to the determination of its application for consent to build a major wind farm in Shetland.

This should be set against the context of the two preceding poor years on the markets, and of no consensus regarding future market trends. We should also be mindful of the forecasts of significant cuts in public sector spending which are bound to increase the demands upon every other source of funding including charitable ones.

Predictions are that the Shetland population will contain a higher proportion of elderly people, which is bound to increase the demand for services funded, in whole or in part, by the Trust. Nearly 40% of current expenditure continues to be targeted at older folk.

The Trust's funded bodies review group reported in February 2010, having achieved ongoing savings of nearly £2 million with minimal impact on services. This is a hugely praiseworthy effort which goes a long way to ensure that the Trust's finances will be in balance going forward.

A one-off contribution of £250,000 was pledged to the fundraising effort to provide a new state-of-the-art facility in Aberdeen supporting Shetland people requiring cancer treatment and their families.

For nearly a decade the Trust has taken various steps to distance itself from Shetland Islands Council, its original creator and still its valued partner in many of the areas in which it is active. It is doing this in the light of changing times and, in particular, of the legislation introduced in the Scottish Charities Act.

In February, a majority of the Trustees decided to postpone any decision on the future composition of the Trustee body and to seek further dialogue with the Office of the Scottish Charity Regulator ("OSCR"). Discussions are ongoing, and it is hoped that a solution that satisfies the concerns of all parties will be found in the incoming year.

Meantime the Trust continues in other respects to establish its own identity. It now has a new communications strategy and, as part of this, has established a website at www.shetlandcharitabletrust.co.uk, where up to date information and background about the Trust can be found.

2009/10 has been a very busy year, during which we have been well-served by the small and committed core staff at the Trust. Ann, Jeff and their team deserve our appreciation and thanks for their continuing efforts.

Bill Manson
Chairman

16 December 2010

Trustees' Report

Section 1: Reference and Administrative Details

Name Shetland Charitable Trust
Scottish Charity Number SC027025
Address 22-24 North Road, Lerwick, Shetland, ZE1 0NQ

Trustees

William Henry Manson, Mangaster, Sullom – Chair
James Herculeson Henry, 17 Murrayston Lerwick – Vice Chair
Leslie Angus, 12 Lovers Loan, Lerwick
Laura Florence Baisley, 2 Effstigarth Herra Mid Yell
James Budge, Bigton Farm, Bigton
Alexander Jamieson Cluness, 5 Twageos Road, Lerwick
Alastair Thomas James Cooper, Linga, Mossbank
Adam Thomas Doull, Islesburgh, Sullom
Allison George Leslie Duncan, 1 Hillock, Dunrossness
Elizabeth Laureen Fullerton, Valdur, Bridge End, Burra
Florence Barbara Grains, Hoove, Whiteness
Iris Jean Hawkins, 48 Sycamore Avenue, Scalloway
Robert Simpson Henderson, Maraberg, Cullivoe, Yell
Andrew James Hughson, Brunthamarsland House, Girlsta
Caroline Helen Janette Miller, Heogan, Bressay
Richard Chadsey Nickerson, Ringan, Bigton
Valerie Margaret Lillias Nicolson, Midgarth, 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
Allan Sinclair Wishart, Seafielde Lodge, Lower Sound, Lerwick (resigned 5 August 2009)

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 And Investment Monitor	The Northern Trust Company 50 Bank Street Canary Wharf London E14 5NT
Investment Consultant	Hymans Robertson LLP 20 Waterloo Street Glasgow G2 6DB

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

Following the resignation of Allan Wishart on 5 August 2009, 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.

After a meeting with OSCR in November 2008, Trustees were asked to review the makeup of the Trustee body so that the Trust can better evidence its decision making process where potential conflicts of interest arise. 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, which was arrived at after inviting comment from local Community Councils and members of the public, 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.

Management and Administration

The Trust is managed and administered by a team of nine 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 Cluness Adam Doull (appointed 22 September 2009) Allison Duncan Iris Hawkins Robert Henderson (appointed 22 September 2009) Caroline Miller Allan Wishart (resigned 5 August 2009)
Shetland Heat Energy and Power Limited (SHEAP)	Gary Robinson – Chair Richard Nickerson – Vice Chair Allison Duncan Robert Henderson (appointed 22 September 2009) James Henry Allan Wishart (resigned 5 August 2009)
C. T. Shetland (T. M.) Limited	William Manson - Chair Florence Grains Iris Hawkins James Henry

Viking Energy Limited

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

William Manson – Chair
Alastair Cooper
Caroline Miller (appointed 22 September 2009)
Allan Wishart (resigned 5 August 2009)

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.

Following a review by a Working Group of Trustees, which reported to the Trust in May 2009, a further review was undertaken at Officer level. This identified 32 risks, and 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.

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 to £11 million pa (in March 2009 money) 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 have set the budget for 2010/11 at £11 million. This completes a process started in 2002 and the trust is at last back in financial balance line with the long term strategy of "self-sustainability".

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);
- 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 2010, the Trust provided grant assistance to the following organisations towards the cost of providing a range of social, leisure, cultural, heritage and environmental activities:

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

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.

Trustees' Report *(continued)*

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 December 2009, 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

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. Work is continuing on a programme of upgrading the Fire Safety arrangements in the six rural care homes owned by the Trust. The final instalment was paid in respect of the construction of the New Museum and Archives.

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 five 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.

Financial Performance

In 2008/09, Trustees set a three year financial policy for the years up to 31 March 2012. This policy requires Trustees to reduce expenditure to £11 million per annum by 31 March 2012. This policy was set before the spectacular falls in share values in 2007 and 2008. The market started to bounce back in March 2009, and the year to 31 March 2010 showed returns (income and capital growth) of almost £50 million, the Trust's best ever year. 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 2010, the Trust was close to target, but still below the target by about £10 million.

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 performed well in 2009/10 and have generated profits for the Trust. 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 around £600,000 in 2009/10 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, but has risen to nine with the appointment of a General Manager. Salary costs have risen slightly as a consequence of this appointment.

Charitable Expenditure Year to 31 March 2010

	Original budget £	Vire / enhance £	Current budget £	Actual spend £	Variance £
Charitable Organisations					
Shetland Amenity Trust	1,080,228		1,080,228	1,080,228	-
Shetland Arts Development Agency	773,376		773,376	773,376	-
Shetland Field Studies Service	37,206		37,206	37,206	-
Shetland Recreational Trust	2,781,550		2,781,550	2,781,550	-
Shetland Youth Information Service	188,840		188,840	188,840	-
COPE Limited	154,967		154,967	154,968	-1
Citizens Advice Bureau	147,850		147,850	147,850	-
VAS - Voluntary Services Resource Centre	144,412		144,412	144,412	-
Shetland Churches Council Trust	54,115		54,115	54,115	-
VAS - Children's Befriending Scheme	55,935		55,935	55,935	-
VAS - New Shetlander	370		370	370	-
Disability Shetland Recreation Club	12,641		12,641	12,641	-
Women's Royal Voluntary Service	51,498		51,498	51,498	-
The Swan Trust	48,900		48,900	48,900	-
Shetland Link Up	47,994		47,994	47,994	-
Shetland Link Up - Art Therapy	26,212		26,212	26,212	-
Couple Counselling Shetland	12,000		12,000	12,000	-
Cost of Change (Trusts)	0	24,756	24,756	25,059	-303
Sub total: Charitable Organisations	5,618,094	24,756	5,642,850	5,643,154	-304

	Original budget £	Vire / enhance £	Current Budget £	Actual spend £	Variance £
Projects					
Independence at Home Scheme	0	10,000	10,000	1,199	8,801
Christmas Grant Scheme	1,147,500		1,147,500	506,590	640,910
Equalisation of Charges	3,291,189		3,291,189	3,291,189	-
Community Development Grants	22,272	-9,530	12,742	12,742	-
Community Support Grants	64,321	9,530	73,851	73,805	46
Festival Grants	30,000		30,000	30,000	-
Arts Grant Scheme	35,000		35,000	29,217	5,783
Social Assistance Grants	35,000	7,987	42,987	21,470	21,517
Senior Citizens Clubs	23,000		23,000	18,439	4,561
Buses for Elderly and Disabled	49,980		49,980	48,000	1,980
Local Charitable Organisations	14,000		14,000	12,572	1,428
Sheltered Housing Heating	26,010		26,010	26,010	-
Supported Employment	8,000		8,000	7,503	497
Springfield Running costs	1500		1,500	556	944
Sub total: Projects	4,747,772	17,987	4,765,759	4,079,292	686,467

Trustees' Report *(continued)*

	Original budget £	Vire / enhance £	Current budget £	Actual spend £	Variance £
Property Maintenance					
Shetland Amenity Trust	381,986		381,986	381,986	-
Shetland Arts (including Weisdale Mill)	78,250		78,250	78,245	5
Shetland Recreational Trust	809,374		809,374	809,374	-
Market House	38,000		38,000	13,354	24,646
Swan Trust	21,100		21,100	21,100	-
Rural Care Homes Fire Safety	-	593,600	593,600	342,277	251,323
Springfield Chalet	2,700		2,700	694	2,006
Maintenance 22-24 North Road	9,000		9,000	2,765	6,235
Sub total: Property Maintenance	1,340,410	593,600	1,934,010	1,649,795	284,215
Total of Programme	11,706,276	636,343	12,342,619	11,372,241	970,380
Capital/ One-off Projects (slippage from Previous years)					
CLAN 123 (from 07/08 underspend)	-	250,000	250,000	-	250,000
New Museum and Archives	-	83,265	83,265	83,265	
Less: Charitable grants repaid				(64,706)	
Overall total				11,390,800	

Section 5: Financial Review

Growth and Unrestricted Funds

The Trust relies chiefly on funds generated by investments on the world's Stock Exchanges. In 2009/10, 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 2010) of the Trust's reserves that are invested to generate income (ie not the 'Donated Properties') is around £210 million, which covers expenditure for around 19 years.

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

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

Investment Performance

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

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

Stock Exchanges

As at 31 March 2010, 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 £45 million in bonds and commercial property, and Schroders Property Managers manage around £11 million in commercial property.

This review covers the year to 31 March 2010, which contained a massive upturn, that followed the extraordinary downturn in the markets in the autumn of 2008. Trustees reviewed the investment strategy and decided to sit tight and not crystallise paper losses. Fortunately the Trust had built up cash reserves before the worst of the falls, which has avoided the need for precipitate reaction. A low point was reached at the beginning of March 2009. Since then, the Trust has achieved returns of around 40% or better in most equity markets.

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, 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 £16 million and it generated rental income of over £2.5 million in 2009/10. The Board of Directors resolved to make a gift aid payment of £3.8 million to the Trust in the financial year 2009/10. This mechanism means that neither body pays tax on these profits.

SLAP (Trading) Limited is a wholly owned subsidiary of SLAP and 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 2010, and is expected to be wound up shortly.

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 £340,233 to the Trust in the financial year 2009/10.

Viking Energy Limited is a 90% owned subsidiary of the Trust. The Trust has invested £2.25 million at 31 March 2010. It is presently investigating a very large windfarm 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. It is easier to take hard decisions when the investments are on a Stock Exchange, but less so when they involve local concerns. 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 2008.

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 2009/10 to 2011/12, of reducing expenditure to £11 million per annum over that period. This target has been achieved with the setting of the 2010/11 budget.

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.

Funded Bodies

The Funded Bodies Review Group has been wound up. All reviews have been completed with the exception of the Planned Maintenance Programme review, which is being carried out by officers in 2010/11. However, Trustees decided to keep the group in abeyance, so that it could be brought back to assist in the next budget cycle if required.

Investment Strategy and Fund Manager Performance

The proposed changes to the Trust's investment strategy are now complete.

WH Manson
Chair

16 December 2010

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 auditors' 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 2010 which comprise the Consolidated and Trust statement of financial activities, the Consolidated and Trust balance sheets, the consolidated cash flow statement, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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 auditors

The trustees' responsibilities for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Trustees' Responsibilities on page 14.

We have been appointed as auditors under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and report in accordance with the regulations made under that section of that Act. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006. We also report to you if, in our opinion, the Trustees' Report is not consistent with the financial statements, if the charity has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Trustees' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and the charity's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the charity's affairs as at 31 March 2010 and of the group's incoming resources and application of resources for the year then ended; and
- have been properly prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006.

DJ Watt

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Eligible to act as an auditor in terms of section 25 of the Companies Act 1989

[Date]

Consolidated statement of financial activities
for the year ended 31 March 2010

	Note	Unrestricted funds		2010 Total £000	2009 Total £000
		General funds £000	Expendable endowment £000		
Incoming resources					
<i>Incoming resources from generated funds</i>					
Voluntary income	2	-	-	-	8,153
Activities for generating funds – trading subsidiaries		4,181	-	4,181	4,029
Investment income		4,750	-	4,750	4,360
<i>Other incoming resources</i>					
Rental income		1,141	-	1,141	1,337
Other income		167	-	167	268
Total incoming resources		<u>10,239</u>	<u>-</u>	<u>10,239</u>	<u>18,147</u>
Resources expended					
<i>Cost of generating funds</i>					
Expenditure of trading subsidiaries		(2,108)	-	(2,108)	(1,330)
Investment management costs		(196)	-	(196)	(386)
<i>Charitable activities</i>	3	(11,936)	(1,298)	(13,234)	(14,285)
<i>Governance costs</i>	3	(79)	-	(79)	(74)
Total resources expended		<u>(14,319)</u>	<u>(1,298)</u>	<u>(15,617)</u>	<u>(16,075)</u>
Net (outgoing) incoming resources before other recognised gains and losses		<u>(4,080)</u>	<u>(1,298)</u>	<u>(5,378)</u>	<u>2,072</u>
Other recognised gains and losses					
Gains/(Losses) on managed fund investments		-	46,836	46,836	(44,721)
Actuarial (losses) gains in defined benefit pension scheme	15	(792)	-	(792)	(429)
Net movement in funds		<u>(4,872)</u>	<u>45,538</u>	<u>40,666</u>	<u>(43,078)</u>
Fund balances brought forward		<u>(16,216)</u>	<u>192,644</u>	<u>176,428</u>	<u>219,506</u>
Fund balances carried forward		<u><u>(21,088)</u></u>	<u><u>238,182</u></u>	<u><u>217,094</u></u>	<u><u>176,428</u></u>

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 2010

	Note	Unrestricted funds		2010	2009
		General funds £000	Expendable endowment £000	Total £000	Total £000
Incoming resources					
<i>Incoming resources from generated funds</i>					
Voluntary Income	2	-	-	-	8,153
Investment income		4,750	-	4,750	4,360
Gift aid payment from subsidiary undertakings		4,170	-	4,170	4,508
<i>Other incoming resources</i>					
Rental income		1,141	-	1,141	1,337
Other income		67	-	67	268
Total incoming resources		10,128	-	10,128	18,626
Resources expended					
<i>Cost of generating funds</i>					
Investment management costs		(196)	-	(196)	(386)
Provision (made) released against equity investment		-	(1,655)	(1,655)	(303)
<i>Charitable activities</i>	3	(11,936)	(1,298)	(13,234)	(14,285)
<i>Governance costs</i>	3	(79)	-	(79)	(74)
<i>Other resources expended</i>					
Interest payable on loan from subsidiary		(275)	-	(275)	(1,529)
Total resources expended		(12,486)	(2,953)	(15,439)	(16,577)
Net incoming (outgoing) resources before other recognised gains and losses		(2,358)	(2,953)	(5,311)	2,049
Other recognised gains and losses					
Gains/(Losses) on managed fund investments		-	46,836	46,836	(44,721)
Actuarial losses in defined benefit pension scheme	15	(792)	-	(792)	(429)
Net movement in funds		(3,150)	43,883	40,733	(43,101)
Total funds brought forward		3,204	173,118	176,322	219,423
Fund balances carried forward		54	217,001	217,055	176,322

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 2010

	Note	2010		2009	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	5		29,853		27,653
Investments:					
Investments	6	180,583		143,045	
Programme-related investments	7,8	2,481		6,789	
			<u>183,064</u>		<u>149,834</u>
Total fixed assets			<u>212,917</u>		<u>177,487</u>
Current assets					
Stocks		36		26	
Debtors	9	2,388		1,872	
Investments		-		12	
Cash at bank and in hand		7,610		7,073	
			<u>10,034</u>		<u>8,983</u>
Creditors: amounts falling due within one year	10	<u>(3,111)</u>		<u>(7,814)</u>	
Net current assets			<u>6,923</u>		<u>1,169</u>
Total assets less current liabilities			<u>219,840</u>		<u>178,656</u>
Provisions for liabilities and charges	12		<u>(1,147)</u>		<u>(1,466)</u>
Net assets excluding pension liability			<u>218,693</u>		<u>177,190</u>
Pension liability	15		<u>(1,599)</u>		<u>(762)</u>
Net assets including pension liability			<u>217,094</u>		<u>176,428</u>
Represented by:					
Expendable endowment	13		238,182		192,644
Unrestricted income funds:	14				
General funds			(11,804)		(5,597)
Trading funds			(7,961)		(9,883)
Revaluation reserve			26		26
Minority interest			250		-
Unrestricted income funds excluding pension liability			<u>(19,489)</u>		<u>(15,454)</u>
Pension reserve	14		<u>(1,599)</u>		<u>(762)</u>
Total unrestricted income funds			<u>(21,088)</u>		<u>(16,216)</u>
Total charity funds			<u>217,094</u>		<u>176,428</u>

These financial statements were approved by the trustees on 16 December 2010 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 2010

	<i>Note</i>	2010 £000	2009 £000
Fixed assets			
Tangible assets	5	11,571	12,209
Investments:			
Investments	6	180,583	143,045
Programme-related investments	7,8	52,611	52,266
		<u>233,194</u>	<u>195,311</u>
Total fixed assets		244,765	207,520
Current assets			
Debtors	9	1,312	1,348
Investments		-	9
Cash at bank and in hand		4,865	5,305
		<u>6,177</u>	<u>6,662</u>
Total current assets		6,177	6,662
Creditors: amounts falling due within one year	10	(1,288)	(1,598)
		<u>4,889</u>	<u>5,064</u>
Net current assets		4,889	5,064
Total assets less current liabilities		249,654	212,584
Creditors: amounts falling due outwith one year	11	(31,000)	(35,500)
		<u>218,654</u>	<u>177,084</u>
Net assets excluding pension liability		218,654	177,084
Pension liability	15	(1,599)	(762)
		<u>217,055</u>	<u>176,322</u>
Net assets including pension liability		217,055	176,322
Represented by:			
Expendable endowment	13	217,001	173,118
Unrestricted income funds			
General funds	14	1,653	3,966
Pension reserve	14	(1,599)	(762)
		<u>54</u>	<u>3,204</u>
Total unrestricted income funds		54	3,204
		<u><u>217,055</u></u>	<u><u>176,322</u></u>

These financial statements were approved by the trustees on 16 December 2010 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 2010

	2010		2009
	£000	£000	£000
Net cash outflow from operating activities		(8,773)	(3,956)
Returns on investment and servicing of finance			
Investment income and interest received		4,750	4,390
Capital expenditure and financial investment			
Purchase of managed funds investments	(29,634)		(274,558)
Purchase of tangible fixed assets	(3,594)		(5,021)
Purchase of shares within subsidiary	(1,415)		-
Sale of managed funds investments	58,679		283,975
Loans repaid	258		326
	<hr/>		<hr/>
Net cash inflow (outflow) from capital expenditure and financial investment		24,294	4,722
Management of liquid resources			
Net movement in cash flows attributable to managed fund investments		(21,461)	(9,417)
Funds (deposited) withdrawn from short term deposit (net)		1,727	5,066
		<hr/>	<hr/>
Increase in cash in the year		537	805
		<hr/> <hr/>	<hr/> <hr/>

Notes to the consolidated cash flow statement
for the year ended 31 March 2010

Reconciliation of net incoming (outgoing) resources to net cash outflow from operating activities	2010	2009
	£000	£000
Net incoming (outgoing) resources	(5,378)	2,072
Investment income and interest receivable	(4,750)	(4,360)
Depreciation written off and impairment of tangible fixed assets	1,392	1,266
Movement in pension liability, excluding actuarial gains and losses	45	9
Decrease (increase) in stock	(10)	14
Donated assets receivable	-	(973)
Decrease (increase) in debtors	(516)	931
Increase (decrease) in creditors	(4,703)	(3,064)
(Decrease) increase in provisions	(319)	149
Increase in provision for programme related investments	5,466	-
	<hr/>	<hr/>
Net cash outflow from operating activities	(8,773)	(3,956)
	<hr/>	<hr/>
 Reconciliation of net cash flow to movement in net funds		
Increase in cash in the year	537	805
Cash outflow (inflow) from increase (decrease) in liquid resources	(1,727)	(5,066)
	<hr/>	<hr/>
Change in net funds resulting from cash flows	(1,190)	(4,261)
Net funds at the start of the year	8,796	13,057
	<hr/>	<hr/>
Net funds at the end of the year	7,606	8,796
	<hr/>	<hr/>
 Net funds comprise:		
Cash in hand held by investment managers	(4)	1,711
Temporary deposits	-	12
Cash at bank and in hand	7,610	7,073
	<hr/>	<hr/>
	7,606	8,796
	<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 and Trust balance sheets.

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 2010 £000	Charity 2010 £000	Group 2009 £000	Charity 2009 £000
Gifts and donations	-	-	7,180	7,180
Value of donated fixed assets (see note 5)	-	-	973	973
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	8,153	8,153
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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:

	2010 £000	2009 £000
General funds		
Payments to charitable organisations	5,643	5,847
Project expenditure	4,079	5,223
Property advice and maintenance	1,650	1,247
Capital expenditure projects	83	286
Charitable Grants Repaid	(64)	(92)
	<hr/>	<hr/>
Total charitable grants	11,391	12,511
Support costs	545	508
	<hr/>	<hr/>
Total charitable expenditure – general funds	11,936	13,019
	<hr/>	<hr/>
Expendable endowment		
Depreciation – see note 4	1,298	1,266
	<hr/>	<hr/>
Total resources expended on charitable activities	13,234	14,285
	<hr/> <hr/>	<hr/> <hr/>

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

Support costs

Support costs for the year of £545,000 (2009: £508,000) principally represent administration expenses and are all deemed to be attributable to the group's charitable activities. Included within administration expenses is £339,000 (2009: £256,000) in respect of staff costs (see note 4).

Governance costs

Governance costs totalling £79,000 (2009: £74,000) comprise the costs associated with the Trust's compliance with charity regulation and good practice. They include £34,000 (2009: £30,000) representing an appropriate apportionment of salary costs together with trustees' expenses (see note 4) and audit fees of £25,000 (2009: £30,000).

Notes *(continued)*

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

	Group and charity Total 2010 £	Total 2009 £
Allocation of staff and support costs, including Trustees' allowance and expenses (see note 4)	34	30
Other costs	20	14
External auditors' remuneration:		
Audit of these financial statements	25	30
Audit of subsidiary undertakings (excluded from charitable governance costs)	31	32
Other services: taxation in relation to subsidiary undertakings	11	15
 Total governance costs	79	74

4 Staff numbers and costs

The group had an average of fifteen employees during the year (2009: fifteen). The aggregate payroll cost of these employees was as follows:

	2010 £000	2009 £000
Wages and salaries	468	396
Social security costs	37	31
Pension costs	69	50
	574	477

Employee costs totalling £228,713 (2009: £196,277) were charged to 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.

One employee (2009: one employee) received emoluments totalling between £60,000 and £69,999. Retirement benefits are accruing to this member 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 (2009: £7,500) from the group during the year. Expenses totalling £3,725 (2009: £1,837) were reimbursed to 10 trustees (2009: 13 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	15,728	12,322	865	2,854	57,203
Additions	-	661	1,110	-	1,821	3,592
Transfers	-	-	3,554	-	(3,554)	-
At end of year	25,434	16,389	16,986	865	1,121	60,795
<i>Depreciation</i>						
At beginning of year	17,587	11,366	-	288	309	29,550
Charge for year	1,083	214	-	33	62	1,392
At end of year	18,670	11,580	-	321	371	30,942
<i>Net book value</i>						
At 31 March 2010	6,764	4,809	16,986	544	751	29,853
At 31 March 2009	7,847	4,362	12,322	577	2,545	27,653

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 2008 by professionally qualified valuers. These valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual Practice Statements. The Trustees, having taken appropriate professional advice, are of the opinion that the commercial property market in Shetland has not fallen in 2009/10, as Shetland has been largely insulated from the shocks experienced in most of the rest of the UK. The investment properties are shown in these accounts as a Trustees' valuation, consisting of the 2008 valuations rolled forward for acquisitions, disposals and any spending on assets under construction.

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

	2010 £000	2009 £000
Plant and machinery, fixtures and fittings held by Shetland Heat Energy and Power Limited	303	291
Assets under construction held by Shetland Leasing and Property Development Limited	449	2,254

Notes *(continued)*

5 Tangible fixed assets *(continued)*

Charity	Land and buildings £000	Donated Assets £000	District heating scheme infra- structure £000	Total £000
<i>Cost</i>				
At beginning of year	16,275	9,159	15,728	41,162
Additions	-	-	661	661
At end of year	16,275	9,159	16,389	41,823
<i>Depreciation</i>				
At beginning of year	15,035	2,552	11,366	28,953
Charge for year	170	915	214	1,299
At end of year	15,205	3,467	11,580	30,252
<i>Net book value</i>				
At 31 March 2010	1,070	5,692	4,809	11,571
At 31 March 2009	1,240	6,607	4,362	12,209

6 Managed funds

Group and Charity	2010 Market Value £000	2010 Cost £000	2009 Market Value £000	2009 Cost £000
Listed investments:				
British Government securities	26,240	25,536	25,615	26,252
Other UK fixed interest	22,224	21,047	17,654	20,091
Overseas fixed interest	-	-	2,619	2,639
	48,464	46,583	45,888	48,982
UK equities	59,278	55,135	44,914	61,964
Overseas equities	59,191	50,186	46,384	59,514
Property units	13,585	12,574	4,122	5,887
	132,054	117,895	95,420	127,365
Total investments	180,518	164,478	141,308	176,347
Cash on deposit and in hand	65	(4)	1,737	1,711
	180,583	164,474	143,045	178,058

Notes (continued)

6 Managed funds (continued)

	2010 £000	2009 £000
<i>Reconciliation of market value of investments</i>		
Market value at beginning of year	143,045	193,005
Investments purchased	29,634	274,558
Investments sold	(58,679)	(283,975)
Total gains (losses) on managed fund investments	68,298	(35,468)
Movement in investment managers' cash balances	(1,715)	(5,075)
	180,583	143,045
	180,583	143,045

As at 31 March 2010, 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:

	2010 Market value £000	2010 Cost £000	2009 Market value £000	2009 Cost £000
Insight Investment Management	49,078	47,128	49,563	52,354
Blackrock Global Investors	118,475	105,327	91,637	121,817
Capital International	-	-	50	50
Record Currency Management	-	-	1,795	3,837
Schroders	13,030	12,019	-	-
	180,583	164,474	143,045	178,058
	180,583	164,474	143,045	178,058

7 Programme-related investments

	Group		Charity	
	2010 £000	2009 £000	2010 £000	2009 £000
Equity (below)	1,440	5,490	51,570	50,976
Loans (note 8)	1,041	1,299	1,041	1,290
	2,481	6,789	52,611	52,266
	2,481	6,789	52,611	52,266

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	6,001	626	6,627
Additions	1,415	-	1,415
	<hr/>	<hr/>	<hr/>
Cost at end of year	7,416	626	8,042
	<hr/>	<hr/>	<hr/>
<i>Provisions</i>			
At beginning of year	535	601	1,136
Provided in year	5,466	-	5,466
Disposals	-	-	-
	<hr/>	<hr/>	<hr/>
Provisions at end of year	6,001	601	6,602
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 March 2010	1,415	25	1,440
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2009	5,466	25	5,491
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Equity -- Charity	Shares in subsidiary undertakings £000
<i>Cost</i>	
At beginning of year	70,501
Additions	2,249
	<hr/>
Cost at end of year	72,750
	<hr/>
<i>Provisions</i>	
At beginning of year	19,525
Provided in year	1,655
	<hr/>
Provisions at end of year	21,180
	<hr/>
<i>Net book value</i>	
At 31 March 2010	51,570
	<hr/> <hr/>
At 31 March 2009	50,976
	<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>
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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 2010. The Directors of SLAP (Trading) Limited have applied to Companies House to have that company removed from the register.

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:

	2010 SLAP £000	2010 SHEAP £000	2010 VEL £000	2010 Total £000	2009 Total £000
Turnover	2,654	1,526	-	4,180	3,871
Cost of sales	(230)	(651)	-	(881)	(753)
Gross profit	2,424	875	-	3,299	3,118
Administration expenses	(43)	(606)	(1,172)	(1,821)	(689)
Gift aid payment to Shetland Charitable Trust	(3,829)	(340)	-	(4,169)	(4,508)
Other operating income	102	5	-	107	108
Operating (loss) profit	(1,346)	(66)	(1,172)	(2,584)	(1,971)
Reversal of investment property valuation deficit	25	-	-	25	-
Interest receivable and similar income	263	2	4	269	1,580
(Loss) on ordinary activities before taxation	(1,058)	(64)	(1,168)	(2,290)	(391)
Tax on (loss) on ordinary activities	323	(3)	-	320	112
(Loss) on ordinary activities after taxation being loss for the financial year	(735)	(67)	(1,168)	(1,970)	(279)

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:

	2010 Total £000	2009 Total £000
Cost of sales	881	753
Administration expenses	1,821	689
Reversal of investment property valuation deficit	(25)	-
Tax charge (credit) on profit on ordinary activities	(319)	(112)
Minority interest	(250)	-
	<u>2,108</u>	<u>1,330</u>

Included within the companies' profit (loss) for the year is a total of £4,168,815 (2009: £4,507,494) 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:

	2010 SLAP £000	2010 SHEAP £000	2010 VEL £000	2010 Total £000	2009 Total £000
Tangible fixed assets	18,004	303	1,416	19,723	20,934
Current assets	33,243	634	1,018	34,895	37,872
Current liabilities	(402)	(345)	(1,104)	(1,851)	(6,143)
Creditors amounts due after one year	(1,105)	(53)	-	(1,158)	(1,582)
Total net assets	<u>49,740</u>	<u>539</u>	<u>1,330</u>	<u>51,609</u>	<u>51,081</u>
Called up share capital	70,000	500	2,500	73,000	70,500
Profit and loss account	(20,286)	39	(1,170)	(21,417)	(19,445)
Revaluation reserve	26	-	-	26	26
Total reserves	<u>49,740</u>	<u>539</u>	<u>1,330</u>	<u>51,609</u>	<u>51,081</u>

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

8 Programme-related investments – Loans

Group	2010 £000	2009 £000
Agricultural Ten Year Loan Scheme	1,107	1,361
Provisions for doubtful debts	(66)	(71)
	<u>1,041</u>	<u>1,290</u>
Local loans granted by Shetland Leasing and Property Developments Limited (net of provisions)	-	9
	<u>1,041</u>	<u>1,299</u>

Notes (continued)

8 Programme-related investments – Loans (continued)

	2010 £000	2009 £000
Charity		
Agricultural Ten Year Loan Scheme	1,107	1,361
Provisions for doubtful debts	(66)	(71)
	1,041	1,290
	1,041	1,290

9 Debtors

	Group		Charity	
	2010 £000	2009 £000	2010 £000	2009 £000
Trade debtors	812	478	-	-
Amounts owing from subsidiary undertakings	-	-	4	42
Prepayments and accrued income	1,543	1,282	1,279	1,218
Other debtors:				
Loan repayments due	22	15	18	15
VAT recoverable	11	26	11	5
Sundry debtors	-	71	-	68
	2,388	1,872	1,312	1,348
	2,388	1,872	1,312	1,348

10 Creditors: amounts falling due within one year

	Group		Charity	
	2010 £000	2009 £000	2010 £000	2009 £000
Trade creditors	941	92	-	-
Rents in advance	66	76	-	-
Amounts owed to subsidiary undertakings	-	5,450	-	-
Other tax and social security	256	490	-	478
Other creditors and accruals	1,848	1,706	1,288	1,120
	3,111	7,814	1,288	1,598
	3,111	7,814	1,288	1,598

11 Creditors: amounts falling due after more than one year

Charity	2010 £000	2009 £000
Loan from subsidiary undertaking	31,000	35,500
	31,000	35,500
	31,000	35,500

The loan of £31,000,000 (2009: £35,500,000) from Shetland Leasing and Property Developments Limited represents an unsecured loan which is repayable between 2011 and 2012. It bears interest at a rate of 0.25% over base rate.

Notes *(continued)*

12 Provisions for liabilities and charges

Group	Deferred taxation
	£000
At beginning of year	1,466
Credit for the year	(341)
Effect of increased tax rates	22
	1,147
At end of year	1,147

The deferred tax liability arising within the Trust's subsidiary companies at the year end of £1,147,000 (2009: £1,466,000) is analysed as follows:

	2010	2009
	£000	£000
Accelerated capital allowances	405	324
Other timing differences: Gift aid	742	1,072
Other timing differences	-	70
	1,147	1,466
	1,147	1,466

13 Expendable endowment

	Group Total	Charity Total
	£000	£000
At beginning of year	192,644	173,118
Incoming resources	-	-
Outgoing resources	(1,298)	(2,953)
Profits in the year	46,836	46,836
	238,182	217,001
At end of year	238,182	217,001

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	(5,597)	(9,883)	26	(762)	-	(16,216)
Net movement in funds	(6,207)	1,922	-	(837)	250	(4,872)
At end of year	<u>(11,804)</u>	<u>(7,961)</u>	<u>26</u>	<u>(1,599)</u>	<u>250</u>	<u>(21,088)</u>

Charity	General funds £000	Pension reserve £000	Total unrestricted income funds £000
At beginning of year	3,966	(762)	3,204
Net incoming resources before other recognised gains and losses	(2,358)	-	(2,358)
Actuarial losses	-	(792)	(792)
Transfer to (from) pension reserve	45	(45)	-
At end of year	<u>1,653</u>	<u>(1,599)</u>	<u>54</u>

The deficit balance on the trading funds of £11,804,000 (2009: £9,883,000) 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 £11,804,000 (2009: £ 5,597,000) 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 £1,599,000 (2009: £762,000), was a surplus of £1,653,000 (2009: £3,966,000).

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 2010 by a qualified independent actuary.

	2010 £000	2009 £000
Present value of funded defined benefit obligations	(2,726)	(1,514)
Fair value of plan assets	1,286	866
Present value of unfunded defined benefit obligations	<u>(1,440)</u>	<u>(648)</u>
Net (liability)	<u>(1,599)</u>	<u>(762)</u>

Notes *(continued)*

15 Pension scheme *(continued)*

Movements in present value of defined benefit obligation:

	2010 £000	2009 £000
At 1 April	1,628	1,578
Current service cost	50	48
Interest cost	114	110
Actuarial losses / (gains)	1,092	(89)
Past service cost	12	-
Contributions by members	31	21
Benefits paid	(42)	(40)
	2,885	1,628
	2,885	1,628

Movements in fair value of plan assets:

	2010 £000	2009 £000
At 1 April	866	1,254
Expected return on plan assets	59	93
Actuarial gains / (losses)	300	(518)
Contributions by employer	72	56
Contributions by members	31	21
Benefits paid	(42)	(40)
	1,286	866
	1,286	866

Expense recognised in the statement of financial activities:

	2010 £000	2009 £000
Current service cost	(50)	(48)
Interest on defined benefit pension plan obligation	(114)	(110)
Expected return on defined benefit pension plan assets	59	93
Past service cost	(12)	-
	(117)	(65)
	(117)	(65)

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

	2010 £000	2009 £000
Charitable activities – support costs	(117)	(65)
	(117)	(65)

The total amount recognised in the other recognised gains and losses section of the statement of financial activities is a loss £792,000(2009: gain of £429,000).

Notes (continued)

15 Pension scheme (continued)

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

	2010 Fair value £000	2009 Fair value £000
Equities	1,029	684
Corporate bonds	103	78
Property	90	52
Cash	64	52
	<u>1,286</u>	<u>866</u>
Actual return on plan assets	<u>360</u>	<u>(322)</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:

	2010 %	2009 %
Discount rate	5.5	6.9
Expected rate of return on plan assets	7.3	6.6
Future salary increases	5.3	4.6
Inflation / pension increase rate	3.8	3.1

In valuing the liabilities of the pension fund at 31 March 2010, 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

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Present value of scheme liabilities	(2,885)	(1,628)	(1,578)	(1,846)	(1,851)	(1,439)
Fair value of scheme assets	1,286	866	1,254	1,303	1,151	1,253
(Deficit) / surplus	<u>(1,599)</u>	<u>(762)</u>	<u>(324)</u>	<u>(543)</u>	<u>(700)</u>	<u>(186)</u>

Notes (continued)

15 Pension scheme (continued)

Experience adjustments

	2010	2009	2008	2007	2006	2005
	£000/%	£000/%	£000/%	£000/%	£000/%	£000/%
Experience adjustments on scheme liabilities [as a percentage of scheme liabilities]	(7) / (0.4)	(86) / 9.6	3 / 0.2	(35) / (1.9)	(279) / (15)	(2) / (0.1)
Experience adjustments on scheme assets [as a percentage of scheme assets]	300 / 23.3	(518)/(59.8)	(195)/(15.6)	12/0.9	149/12.9	32/2.6

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

Subsequent to the year end, the UK Government announced its intention to move to CPI, from RPI, as the basis for setting pension increases within public sector pensions, including the local government pension scheme. No adjustment has been required to these financial statements as a result of this announcement. It is not possible to quantify at this time what impact the change will have on the net pension liability going forward.

16 Related parties

In the normal course of business, some of the Trustees of the Trust naturally 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.

APPENDIX B

SHETLAND CHARITABLE TRUST
Summary of the Movements on the Revenue and Capital Accounts for the Year Ended 31 March 2010

	2009/10 £ million	2009/10 £ million	2008/09 £ million	2008/09 £ million	2007/08 £ million	2007/08 £ million
Fund Managers		49.5		-40.7		-17.0
Local Investments						
Ag. Loan Interest	0.1		0.1		0.1	
SLAP/SHEAP Profits	4.2		4.1		4.0	
Rents, Less Depreciation	1.0		1.3		1.6	
Interest on SLAP loans	-0.3		-1.5		-2.2	
		<u>5.0</u>		<u>4.0</u>		<u>3.5</u>
TOTAL INVESTMENT RETURNS		<u>54.5</u>		<u>-36.7</u>		<u>-13.5</u>
Expenditure						
Charitable	-11.4		-12.5		-12.1	
Administration	-0.6		-0.6		-0.5	
Movement in Pension Liability	-0.8		-0.4		0.2	
TOTAL EXPENDITURE		<u>-12.8</u>		<u>-13.5</u>		<u>-12.4</u>
SURPLUS/(DEFICIT) FOR THE YEAR		<u>41.7</u>		<u>-50.2</u>		<u>-25.9</u>
OPENING NET ASSETS		176.3		219.4		246.1
Donated Properties						
New Donations	0.0		8.0		0.0	
Depreciation on Donated Properties	-0.9		-0.9		-0.8	
MOVEMENT ON DONATED PROPERTIES		<u>-0.9</u>		<u>7.1</u>		<u>-0.8</u>
CLOSING NET ASSETS		<u>217.1</u>		<u>176.3</u>		<u>219.4</u>

APPENDIX B

SHETLAND CHARITABLE TRUST
Balance Sheet at 31 March 2010

	2009/10 £ million	2009/10 £ million	2008/09 £ million	2008/09 £ million	2007/08 £ million	2007/08 £ million
Fixed Assets including Donated Properties		11.6		12.2		11.7
Managed funds		180.6		143.0		193.0
Local investments						
Equity	51.6		51.0		51.3	
Agricultural loans	1.0		1.2		1.6	
Current assets		52.6		52.2		52.9
Debtors	1.3		1.4		2.0	
Bank	4.9		5.3		2.6	
	6.2		6.7		4.6	
Less current liabilities		-1.3		-1.6		-4.5
Creditors						
Net current assets		4.9		5.1		0.1
SLAP Borrowing		-31.0		-35.5		-38.0
Pension Liability		-1.6		-0.7		-0.3
		<u>217.1</u>		<u>176.3</u>		<u>219.4</u>
Financed by						
Reserves b/fwd	176.3		219.4		246.1	
Deficit for year	41.7		-50.2		-25.9	
Movement on donated properties	-0.9		7.1		-0.8	
	<u>217.1</u>		<u>176.3</u>		<u>219.4</u>	

General Manager: Ann Black
Financial Controller: Jeff Goddard

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mail@shetlandcharitabletrust.co.uk
www.shetlandcharitabletrust.co.uk

If calling please ask for:
Jeff Goddard

Direct Dial: 01595 744991

Date: 16 December 2010

Our Ref: JPG/ema/TA2
Your Ref:

Dear Sirs

This representation letter is provided in connection with your audit of the group and charity financial statements ("the financial statements") of the Shetland Charitable Trust ("the Charity"), for the purpose of expressing an opinion as to whether these financial statements give a true and fair view of the group and Charity's financial position of the Shetland Charitable Trust and of the financial performance of the group and Charity in accordance with UK Generally Accepted Accounting Practice. These financial statements comprise the consolidated and trust balance sheet as at 31 March 2010, and the consolidated and trust statements of financial activities and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

We acknowledge as Trustees our responsibilities under the Charities and Trustee Investment (Scotland) Act 2005 and regulations thereunder for preparing financial statements which give a true and fair view of the group and Charity.

We also acknowledge as Trustees our responsibilities under the Charities and Trustee Investment (Scotland) Act 2005 and regulations thereunder for making accurate representations to you and for ensuring that there is no relevant audit information that you are unaware of.

The Trustees approve the financial statements.

The Trustees understand that auditing standards require you to obtain representations from Trustees on matters that are material to your opinion. The Trustees understand that omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken 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.

The Trustees have made appropriate inquiries of Trustees and officers of the Charity with the relevant knowledge and experience. Accordingly, the Trustees confirm, to the best of their knowledge and belief, the following representations:

1. The financial statements referred to above, which have been prepared on a going concern basis, give a true and fair view and have been properly prepared in accordance with UK Generally Accepted Accounting Practice and have been prepared in accordance with the Companies Act 2006, section 44 (1)(c) of the Charities and Trustee Investment (Scotland) Act 2005, regulation 10 of the Charities Accounts (Scotland) Regulations 2006 and the Trust Deed.

2. All the accounting records have been made available to you for the purpose of your audit, and the full effect of all the transactions undertaken by the Charity have been adequately reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management, Trustee and shareholders meetings and, when applicable, summaries of actions of meetings held after period end for which minutes have not yet been prepared, have been made available to you.
3. The Trustees are not aware of any known actual or possible non-compliance with laws and regulations that could have a material effect on the ability of the Charity to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2010.
4. The Trustees:
 - (a) understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements including omissions of amounts or disclosures in the financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, 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.
 - (b) acknowledge responsibility for the design and implementation of internal control to prevent and detect fraud and error.
 - (c) have disclosed to you their knowledge of fraud or suspected fraud affecting the Charity involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
 - (d) have disclosed to you their knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
 - (e) 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.
5. The Trustees confirm the completeness of the information provided to you regarding the identification of related parties and regarding transactions with such parties that are material to the financial statements. The identity of, and balances and transactions with, related parties have been properly recorded and when appropriate, adequately disclosed in the notes to the financial statements. The Trustees are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 *Related party disclosures* or other requirements. Included in Appendix A 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.
6. Presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with UK Generally Accepted Accounting Practice. The amounts disclosed represent the Trustees' best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and such assumptions appropriately reflect the Trustees' intent and ability to carry out specific courses of action on behalf of the Charity where relevant to the fair value measurements or disclosures.

7. The Trustees have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and has disclosed in the financial statements all guarantees given to third parties.
8. The estimated financial effect of pending or threatened litigation and claims against the Charity has been properly recorded and/or disclosed in the financial statements. Except as disclosed in the notes to the financial statements, the Trustees is not aware of any additional claims that have been or are expected to be received.
9. Except as disclosed in the financial statements or notes thereto there are no:
 - (a) other gain or loss contingencies or other liabilities that are required to be recognised or disclosed in the financial statements, including liabilities or contingencies arising from environmental matters resulting from illegal or possibly illegal acts, or possible violations of human rights legislation; or
 - (b) other environmental matters that may have a material impact on the financial statements.
10. The Trustees confirm that:
 - a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the ability of the Trust 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 Trust to continue as a going concern.
11. The Charity's participation in the Shetland Islands Council local government pension scheme has been identified, properly classified and accounted for as a defined benefit scheme in the financial statements. There are no other schemes of any significance.

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 its knowledge of the business and employee population profile. We agree with the findings of Hymans Robertson as the Charity's actuarial specialists in preparing the pension valuations. The Charity did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact in the independence or objectivity of the specialists.

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; are funded or unfunded; and are approved or unapproved, have been identified and properly accounted for; and
- (b) all settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Trustees on 16 December 2010.

Yours faithfully,

Chair

Appendix A to the Management Representation Letter of Shetland Charitable Trust

Definitions

A. Two or more parties are related parties when at any time during the financial period:

- (i) One party has either direct or indirect control of the other party; or
- (ii) the parties are subject to common control from the same source; or
- (iii) one party has influence over the financial and operating policies of the other party to an extent that that other party might be inhibited from pursuing at all times its own separate interests; or
- (iv) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

B. For the avoidance of doubt, the following are related parties of the reporting entity:

- (i) Its ultimate and intermediate parent undertakings, subsidiary undertakings, and fellow subsidiary undertakings;
- (ii) Its associates and joint ventures;
- (iii) the investor or venturer in respect of which the reporting entity is an associate or a joint venture;
- (iv) Trustee 1 of the reporting entity and the Trustee of its ultimate and intermediate parent undertakings; and
- (v) pension funds for the benefit of employees of the reporting entity or of any entity that is a related party of the reporting entity.

C. The following are presumed to be related parties of the reporting entity unless it can be demonstrated that neither party has influenced the financial and operating policies of the other in such a way as to inhibit the pursuit of separate interests:

- (i) the key management of the reporting entity and the key management of its parent undertaking or undertakings;
- (ii) a person owning or able to exercise control over 20 per cent or more of the voting rights of the reporting entity, whether directly or through nominees;
- (iii) each person acting in concert in such a way as to be able to exercise control or influence over the reporting entity; and
- (iv) an entity managing or managed by the reporting entity under a management contract.

D. Additionally, because of their relationship with certain parties that are, or are presumed to be, related parties of the reporting entity, the following are also presumed to be related parties of the reporting entity:

- (i) members of the close family of any individual falling under parties mentioned above in A to C; and
- (ii) partnerships, companies, trusts or other entities in which any individual or member of the close family in A to C above has a controlling interest.

¹ Trustees include shadow Trustees, which are defined in companies legislation as persons in accordance with whose directions or instructions the Charity are accustomed to act.



Shetland Charitable Trust

Audit Highlights Memorandum

Audit: Year ended 31 March 2010

6 December 2010

AUDIT

Contents

The contacts at KPMG in connection with this report are:

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1. Introduction
 2. Highlights Memorandum
 3. Taxation
 4. Corporate governance
 5. Funding challenges for 2010-11 and beyond
- Appendix 1: Summary of audit differences
- Appendix 2: Matters for future consideration
- Appendix 3: Maximum assurance
- Appendix 4: Independence Confirmation

About this report

This report is made solely to the Trustees of Shetland Charitable Trust ("the Charity"), in accordance with the terms of our engagement. It has been released to the Trustees on the basis that this report shall not be copied, referred to or disclosed, in whole (save for the Trustees' own internal purposes) or in part, without our prior written consent. Matters coming to our attention during our audit work have been considered so that we might state to the Trustees those matters we are required to state to the Trustees in this 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, for our work referable to this report, or for the opinions we have formed.

Please note that this report is confidential between the Trustees and this firm. Any disclosure of this report beyond what is permitted above will prejudice this firm's commercial interests. A request for our consent to any such wider disclosure may result in our agreement to these disclosure restrictions being lifted in part. If the Trustees receive a request for disclosure of this report under the Freedom of Information (Scotland) Act 2000, having regard to these actionable disclosure restrictions you must let us know and you must not make a disclosure in response to any such request without our prior written consent.



Section one

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 for the year ended 31 March 2010 for Shetland Charitable Trust ('the charity' or 'the Trust') and its subsidiaries:

- Shetland Heat Energy and Power Limited ('SHEAP');
- Shetland Leasing and Property Developments Limited ('SLAPD'); and
- Viking Energy Limited ('VEL').

We have also been engaged as auditors of the Viking Energy Partnership ('VEP'), which is jointly controlled by VEL and SSE Viking Limited.

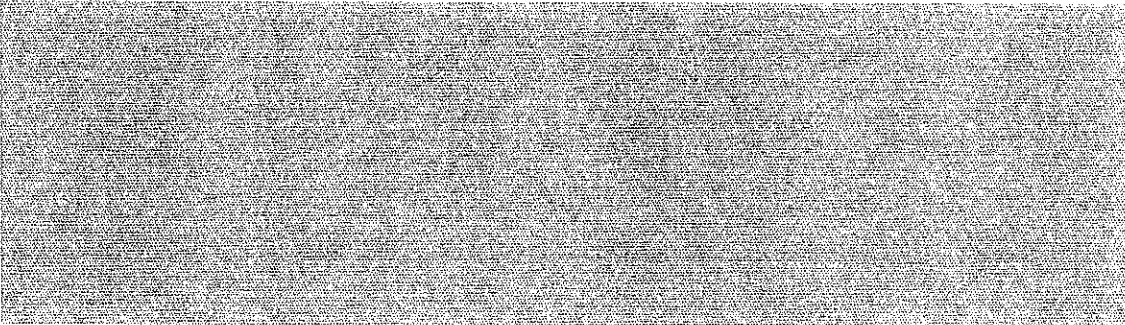
Objective of our audit

Our audit work is designed to consider whether the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and charity's affairs as at 31 March 2010 and of the group's incoming resources and application of resources for the year then ended; 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.

Our objective is to use our knowledge of the 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.

In respect of the subsidiary companies, our audit work is designed to provide an audit opinion in accordance with the requirements of the Companies Act 2006. The audit of VEP has been conducted in accordance with specific regulations relating to partnership financial statements.



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 of audit matters 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.

A copy of our Independence Letter can be seen at Appendix four.

Audit progress and status

Our audit work on the financial statements is now complete and we anticipate issuing an unqualified audit opinion for the year ended 31 March 2010, following the approval of the report and financial statements by the Trustees.

Audit differences

Under the requirements of ISA 260, we are required to report any adjusted audit differences arising from our work. These have been reported in appendix one and have been adjusted for in the various entity financial statements.

We are also required to report any unadjusted audit differences, other than those that are “clearly trivial”, to those charged with governance. There are no unadjusted audit differences.

Acknowledgements

We would like to take this opportunity to thank the charity’s staff for their continued co-operation and assistance during our audit work this year.

Highlights Memorandum

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

Statements of financial activities

The financial results of the charity for the year ended 31 March 2010 are shown in the consolidated Statement of Financial Activities ("SOFA") on the right. Key movements from the prior year are noted below.

Incoming resources

Voluntary income
Voluntary income has decreased by £8,153,000 on the prior year. This is due to the one off donated asset income received in 2008-09 relating to the Isleburgh Trust and SICCT 1976.

Activities for generating funds – trading subsidiaries

The slight increase in the current year has resulted from the increase in fuel prices within SHEAP and from the increased rent received from Scotssta hangar.

Investment income

Income from the investment portfolios increased by £390,000 in the year due mainly to the global economic recovery. In addition, the Trust changed one of its investment managers and this has helped boost investment income.

Rental income

Rental income has decreased in line with the decrease in barrels produced by the Sullom Voe Oil Terminal.

Resources expended

Expenditure of trading subsidiaries

Expenditure has increased mainly due to costs incurred by VEL in its first full year of trading activity.

Charitable activities

The decrease in charitable activities is due to a decreased grants made to Shetland Recreational Trust of £250,000. The other main factor is that last year the HM Revenue and Customs settlement charge in relation to Christmas grants added £478,000 to expenditure, with no similar charge in 2009-10. The final factor affecting this balance was the non-recurring grant made to CATS in 2008-09 of £200,000.

Other recognised gains and (losses)

Managed funds have recovered from the economic downturn that was experienced in the 2008-09 period. The investments made by the charity have recovered to their traditional trading levels. This has been offset by an increase in the pension deficit of £792,000.

Statement of Financial Activities for the years ended 31 March 2009 and 2010		2009 Total £000	2010 Total £000
Incoming resources			
Incoming resources from generated funds			
Voluntary income		8,153	-
Activities for generating funds – trading subsidiaries		4,029	4,181
Investment income		4,360	4,750
Other incoming resources			
Rental income		1,337	1,141
Other income		268	167
Total incoming resources		18,147	10,239
Resources expended			
Expenditure of trading subsidiaries		1,330	2,108
Investment management costs		386	196
Bad debt provision		-	-
Charitable activities		14,285	13,234
Governance costs		74	79
Total resources expended		16,075	15,617
Net (outgoing) / incoming resources before other recognised gains and losses		2,072	(5,378)
Other recognised gains and (losses)		(45,150)	46,044
Net movement in funds		(43,078)	40,666
Reconciliation of funds			
Balance brought forward		219,506	176,428
Balance carried forward		176,428	217,094

Source: draft financial statements

Highlights Memorandum (continued)

Consolidated balance sheet

Fixed assets

Additions in the year of £3,591,000 primarily comprised the purchase of North Stanley Hill and assets under construction for phase two of the Scotsta Airport development. The additions were offset by a depreciation charge in the year of £1,392,00.

Investments

The investments balance has risen by £33,230,000. This significant increase in value is attributable to the general stability in the markets and the global economy during the last 12 months, as compared to the prior year.

Debtors

Debtors have increased by £516,000 year on year. This is mainly due to amounts due within VEL now being included within the consolidated accounts of the Trust.

Creditors

Creditors have decreased by £4,757,000 year on year. This is mainly due to the waiver of amounts (£5,450,000) owed by SLAPD to SLAP (Trading) in the current year. This has been offset by an increase in trade creditors resulting from the balances within VEL.

Cash

Cash balances have increased in the year by £536,000, representing the cash inflow from increased investment income and other working capital movements.

Pension scheme deficit

The pension scheme obligation has increased in the year as a result of the movement in the actuarial assumptions used by the scheme actuaries to calculate the Trust's share of assets and liabilities in the Shetland Islands Council local government pension scheme on an FRS 17 basis. Subsequent to the year end, the UK Government announced its intention to move to CPI, from RPI, as the basis for setting pension increases within public sector pensions, including the local government pension scheme. No adjustment has been required to these financial statements as a result of this announcement. It is not possible to quantify at this time what impact the change will have on the net pension liability going forward.

	2010		2009	
	£000	£000	£000	£000
Fixed assets				
Tangible assets		29,853		27,653
Investments		183,064		149,834
		<u>212,917</u>		<u>177,487</u>
Current assets				
Stock	36		26	
Debtors	2,388		1,872	
Investments	-		12	
Cash at bank	7,610		7,073	
	<u>10,034</u>		<u>8,983</u>	
Creditors: amounts falling due within one year	<u>(3,111)</u>		<u>(7,814)</u>	
Net current assets		6,923		1,169
Net assets excl pension deficit/ surplus		219,840		178,656
Provisions for liabilities and charges		(1,147)		(1,466)
Pension scheme (deficit)/surplus		(1,599)		(762)
Net assets incl pension deficit/surplus		217,094		176,428
Funds				
Expendable endowment		238,182		192,644
Unrestricted Funds		(19,489)		(15,454)
Pension reserve		(1,599)		(762)
Total funds		217,094		176,428

Source: draft financial statements

Highlights Memorandum (continued)

Audit and accounting issues

SLAPD / SLAP (Trading)

During the year loans of £5,450,000 provided to SLAPD from SLAP (Trading) were waived due to the winding up of SLAP (Trading). In processing to wind up SLAP (Trading), a further cash amount of £12,000 was loaned to SLAPD and this was subsequently waived. This amount was processed through the profit and loss as a gain.

SLAPD had an opening investment in SLAP (Trading) of £5,464,000. Given that SLAP (Trading) was being wound up, the investment was impaired, resulting in the recognition of a charge to the profit and loss account. This neutralised the impact of the gain received from the loan waiver with resulting no impact on SLAPD's result for the year.

Intangibles - VEP

VEP had originally recognised all of the investment made to date in relation to the windfarm development through the profit and loss account. Through discussions with management and consideration of the appropriate accounting standards (FRS 10 *Goodwill and intangible assets*, FRS 15 *Tangible fixed assets*, SSAP 13 *Accounting for research and development* and UITF 24 *Accounting for start-up costs*), management proposed to capitalise the windfarm development costs as an intangible asset in accordance with FRS 10. In future years, an annual impairment review should be performed. Once planning consent has been granted the intangible asset should be transferred and recognised in accordance with FRS 15. The asset should only be depreciated once it is ready for use and it should be depreciated over its useful economic life. We are in agreement with the accounting treatment adopted by management.

Filing deadlines- VEP

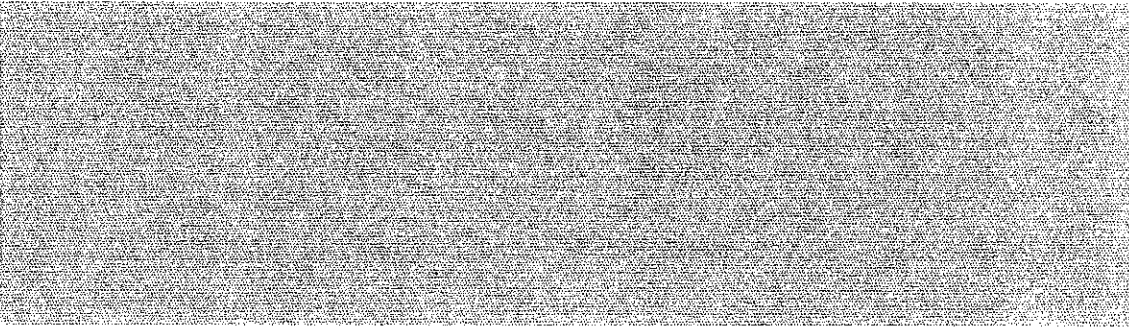
The formation of VEP by VEL and SSE Viking Limited resulted in VEP being classed as a qualifying partnership in accordance with the Partnerships (Accounts) Regulations 2008. These regulations require compliance with the Companies Act 2006 in the preparation and filing of audited financial statements. While certain exemptions are available to the regulations, the partners have elected not to avail themselves of these exemptions. Consequently, VEP needs to follow the filing deadlines with Companies House that this entails, and a copy of the financial statements of VEP is required to be appended to the filed financial statements of the partners, including VEL.

Investment - VEL

The key audit judgement within VEL is in respect of the carrying value of its investment in VEP, prior to planning consent being obtained for the development. The carrying value of the investment matches the share which VEL has in the net assets of VEP. Management believe that the company would be able to recover full value of its investment at this stage, based on the knowledge that investment in renewable energy is a key focus areas for both large energy companies and funders. We are in agreement with the carrying of the investment in VEP at cost within the VEL financial statements, but have asked the directors to provide specific representations in respect of this issue.

Preparation of financial statements

During 2009-10, there was greater ownership of the preparation of the draft financial statements for audit by staff within the Trust. This included significant improvements in the quality of the working papers and supporting schedules that have been provided to support the figures within the draft financial statements. The increased responsibility of finance staff within the Trust has also allowed more oversight of the process from the financial controller, improving the segregation of duties in operation at the Trust.



As part of our audit we reviewed the charity's arrangements in relation to tax. No material issues were identified from our review.

Tax definition of charity

Finance Act 2010 introduces a new definition of charity for tax purposes. This new definition provides that a "charity" means a body of persons or trust that:

- a) is established for charitable purposes only;
- b) meets the jurisdiction test;
- c) meets the registration condition; and
- d) meets the management condition

The management condition requires that 'managers' of the charity are fit and proper persons and HM Revenue and Customs have issued guidance regarding the "fit and proper" requirement. Failure to meet the any of the above conditions in relation to an accounting period means the charity may lose its charitable status for tax purposes, and in this case the charity tax exemptions and reliefs would not be available.

The charity should consider whether the above conditions are met; in particular in relation to the "fit and proper" requirement for its managers.

Online corporation tax filing

HM Revenue and Customs have mandated the filing of tax returns and supporting documentation from 1 April 2011 for all accounting periods ending after 31 March 2010 in "XBRL" format (inline eXtensible Business Reporting Language - an international IT data standard designed to make it easier to report financial information between businesses and on the Internet). The documents that will need to be converted into iXBRL will not only include the corporation tax computations, but also the financial accounts. HM Revenue and Customs have confirmed that they will not accept any submissions of these in any other formats after 1 April 2011.

Management should start to consider how it will manage the conversion of existing accounts information into this new format in order to facilitate submission of the corporation tax returns for the charity's subsidiaries. KPMG has developed a set of solutions in response to these new requirements and we will be happy to discuss ways in which we can support you in meeting the requirements.

Gift aid audits

HM Revenue and Customs are increasingly carrying out audits on Gift Aid reclaims made by charities to ensure that the correct amount of Gift Aid is being claimed. If in the course of an audit HM Revenue and Customs are unable to validate the basis of a Gift Aid claim then the charity will be considered to have been overpaid in relation to its Gift Aid repayment. HM Revenue and Customs will therefore seek to recover overpaid tax for all relevant years plus interest and possibly penalties. The charity will also be required to undertake remedial action, during which period Gift Aid claims could be suspended.

The Trust should review its systems, procedures and documentation surrounding Gift Aid reclaims to ensure that the correct amount of Gift Aid is being claimed and thereby reduce the risk of repayment, penalties or a possible suspension.

Risk assessment statement

The SORP requires the Trustees to consider the risks which face the organisation and how these are addressed. The disclosures in the Trustees' report are a full assessment of the risks the charity faces and we believe the statement, set out below, meets the requirements.

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

Following on from a review by a Working Group of Trustees, which reported to the Trust in May 2009, a further review was undertaken at Officer level. This identified 32 risks, and 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.

Reserves policy

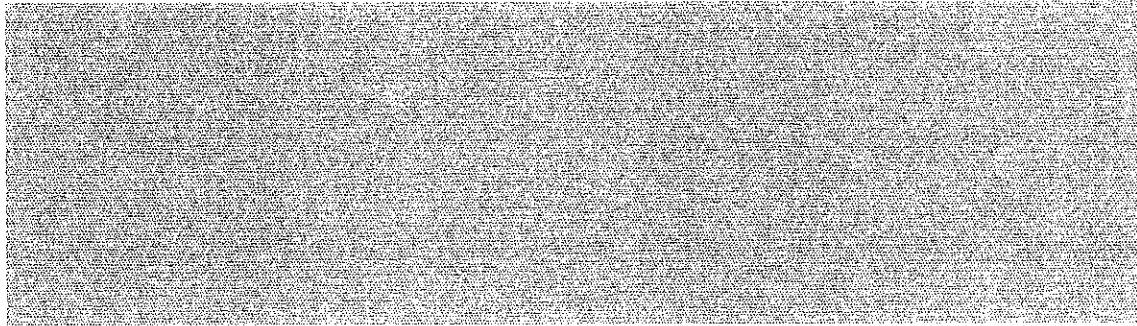
The reserves policy of the Charity as set out in the Trustees' report is as follows:

The aim 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 2010) of the Trust's reserves that are invested to generate income (ie not the 'Donated Properties') is around £210 million, which covers expenditure for around 19 years.

Trustees will seek to control risk through proper diversification and will 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.

The Trustees do, however, require to keep these statements and the underlying matters under regular review and we specifically draw them to your attention at this time prior to approval of the Trustees' report.

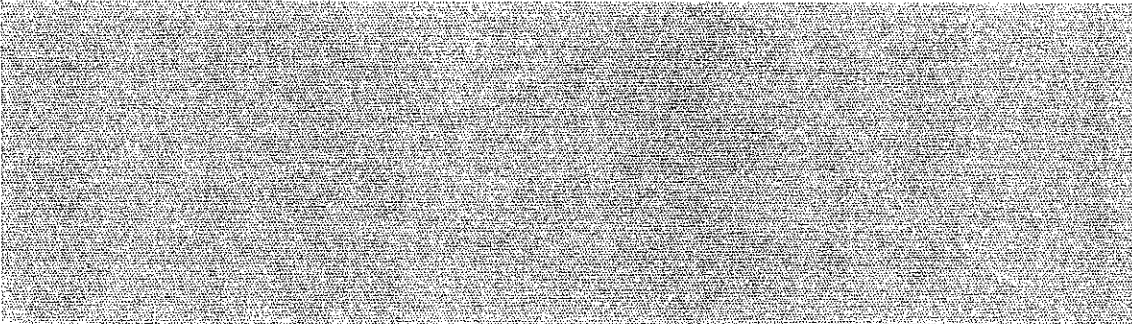


Funding challenges for 2010-11 and beyond

The economic crisis and the effects of government borrowing to fund the fiscal stimulus are set to have an ongoing and profound effect on the public sector and therefore the charity sector in the UK. In the short term, public sector budgets are remaining static or shrinking and, given this, the public sector is likely to be required to be more transparent and accountable.

Given the close relationship of the public and third sectors in the UK, many charities will feel the impact of government budgetary and policy changes. This may mean making long term changes to ensure that the organisation in a good position for the next decade to secure and grow funding and other support. The combination of government debt and an ageing population is likely to put more demands on the public sector - and hence the voluntary sector - than either is seeing today, but there are fewer resources with which to meet these demands.

As Trustees, questions over statutory and voluntary funding of organisations supported by the Trust, together with communication with stakeholders, should be high on your agenda for the coming year. In addition, our experience suggests that many trustee boards are turning their attention to the charity's "impact reporting" in order to assess how well they are telling the story of how they make a difference in a way that is substantiated by data and measurable outcomes.



Summary of audit differences

We are required by ISA (UK and Ireland) 260 *Communication of Audit Matters to Those Charged with Governance* to communicate all uncorrected misstatements, other than those that we believe are clearly trivial, to the audit committee (or equivalent). We are also required to report all material misstatements that management has corrected but that we believe should be communicated to those charged with governance to assist it in fulfilling its governance responsibilities. This appendix sets out the audit differences that we identified during the course of our audit for the year ended 31 March 2010.

No unadjusted audit differences have been identified. The adjusted audit differences are detailed below.

Audit differences adjusted in the financial statements:

	Statement of Financial Activities (£'000)	Balance sheet (£'000)
Dr Trade Debtors		124
Cr Trade Creditors		(124)
<i>being reclassification of credit balance on sales ledger (SLAP)</i>		
Dr Called up share capital not paid		250
Cr Share capital		(250)
<i>being share capital due from Viking Energy Wind (VEL)</i>		
Dr Fixed asset investment		43
Cr Other creditors		(43)
<i>being additional cash interest needed for VEP (VEL)</i>		
Dr Accrued Income		4
Cr Interest receivable	(4)	
<i>being interest receivable not accrued (VEL)</i>		
Dr Accrued income		88
Cr SSE Capital		(44)
Cr VEP Capital		(44)
<i>Being additional capital income due for cash interest top up (VEP)</i>		
Dr Expendable endowment	1,655	
Cr Programme-related investments		(1,655)
<i>Being provision within the Trust for trading results within VEP and SLAP</i>		

Matters for future consideration

Changes to charity accounting regime

In summer 2009, the Scottish Government consulted on proposed changes to the Charities Accounts (Scotland) Regulations 2006, taking account of the sector's experience of how the 2006 Regulations had worked in practice since their implementation in April 2006. A summary of the consultation responses was published by Scottish Government on 26 February 2010, together with the announcement that Scottish Government intends to make some changes to the current accounting regime. The changes to be made will be implemented by the Charities Accounts (Scotland) Amendment Regulations 2010. These regulations will have the effect of amending the 2006 Regulations.

It is important to note that many of the changes are very simple – many correct drafting and typographical errors originally made and some seek to clarify the requirements where the current drafting creates ambiguity and uncertainty when trying to interpret the requirements.

Some changes however do have a more significant impact on charities of a certain size and legal form and are being made to try to reduce the burden of regulation on smaller charities in particular. Other changes are being made in order to provide a clearer regime that can be easily understood by all. The key changes are to:

- thresholds for the preparation of accruals accounts;
- asset threshold for audit by a registered auditor; and
- changes to definitions.

We will discuss these changes with management in due course.

OSCR publishes consultation report

OSCR carried out a Scotland-wide consultation of the charity sector to gather views on its proposed streamlining of charity reporting, and enhancement of information about charities it makes available to the public. All of Scotland's 23,500 charities were informed about the process, and a series of discussion groups were held by the regulator to discuss its recommendations. The great majority of responses were positive, and OSCR will now begin the process of implementation during 2010 with the changes due to take effect in 2011.

Key proposals OSCR is now working to deliver include:

- a revised monitoring programme with a streamlined annual return form;
- a revised Scottish Charity Register with graphically displayed financial highlights; and
- 'OSCR on-line' – providing new on-line services for charities.

It is envisaged that the changes will be introduced in phases during 2011 with further information on this being made available on the OSCR website during the year.

Matters for future consideration (continued)

OSCR response to the ASB consultation on the future of accounting

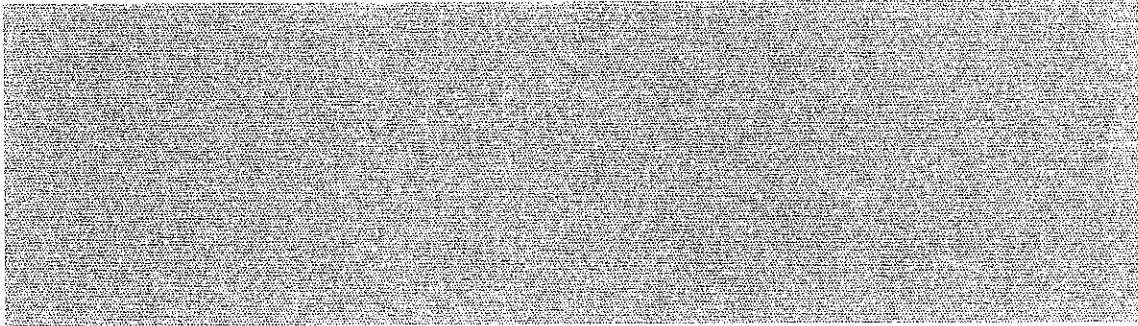
The consultation paper published by the Accounting Standards Board outlined a number of areas that are currently being examined for future change in order to converge UK accounting practices with International Financial Reporting Standards. OSCR has responded to the consultation looking specifically at the proposals in relation to charities and has set out its thoughts on the proposals and what it considers the most preferable way forward. OSCR has also responded to the consultation in its capacity as part of the joint Charities SORP-making body alongside the Charity Commission for England and Wales. Both of these responses are available on the OSCR website.

SORP research programme

The Charity SORP Committee works to develop the sector's reporting practice and the interpretation of accounting standards for charities. The members of the SORP Committee are looking ahead to developing the new SORP. To this end a research programme was undertaken during 2008 and 2009, but there have been no updates to the SORP that will impact the 2010 financial statements.

Charities tax legislation

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 and Customs increasing activity in this regard.



Maximum assurance

Maximum Assurance is the innovative response from KPMG to addressing a growing need for reassurance from audit committees, trustees and management. Demand for these services is particularly strong in the charity sector, where a combination of economic pressures and regulatory change have created a desire to get high quality assurance over all that matters to the Charity, not just the statutory accounts.

Publicity and coverage of our Maximum Assurance initiative in the media has focussed on the concept of external auditors providing 'extended assurance' into areas of internal control and risk traditionally covered by internal auditors, or not at all. However, there are many other aspects to our maximum assurance approach, many of which are particularly relevant to the charity sector.

Further details are provided below. While not every service will be appropriate for you, we wanted to demonstrate as part of our external audit the other services (which don't represent conflict) that can be provided by us to help maintain confidence, trust and comfort in your operations. We are already working with you, understand your business and have access to your staff. Extending our role can therefore be an efficient and effective way to obtain any wider assurances you need. If you would like to find out more about any of these services, or discuss further areas in which we may be able to help you, please contact either David Watt or Keith Macpherson.

Extended assurance: Currently, our testing is performed solely for the purposes of our external audit opinion. KPMG have developed an innovative approach which enables this testing to be extended into other areas, without damaging the independence or quality of our core external audit. This proposition is already proving to be successful in the commercial sector, where we are helping clients make substantial savings in their overall assurance costs and impact. There are strong drivers to suggest this model could have similar benefits in the Charity sector, particularly where some organisations suffer lower quality internal audit provision, or wish to complement the skills of an effective but small in-house internal audit team with more specialist expertise.

Data quality: Effective control of a complex organisation such as a charity can be achieved only with accurate information. We have recently conducted a range of work in the not for profit sector to provide organisations with assurance that the data they rely on, in areas such as core internal KPIs and regular donors' information, is robust and fit for purpose. Sometimes this is driven by a recognition that seeking periodic independent assurances in such areas is both sensible and appropriate. In other cases, it has been driven by specific issues, for example uncertainty at group level about the credibility and consistency of information fed upwards from subsidiaries or separate charity shops.

Internal controls assurance: Our experience in the sector means that we are well placed to provide you with assurance that these controls are fit for purpose and in line with the best practice we see at other clients. We can conduct a range of work in specific high risk areas as well as with larger projects designed to help charities ensure that effective and proportionate internal control is embedded in their culture.

Regulatory: Assurance obtained by regulators on information received from regulated bodies is sometimes questioned, resulting in penalties, intervention and reputational damage if it is found to be misstated. Our service gives an independent report over the accuracy of the data being submitted by the regulated or received by the regulator, and that supporting systems are of an adequate standard.

Future assurance: following the turbulence of the last 18 months, trustees, boards and audit committees, amongst others will want greater visibility around key financial decisions. Future assurance provides assurance around liquidity projections and cash flow forecasts used in these key business decisions.

Appendix four Independence confirmation

Private and confidential

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

16 December 2010

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 charity for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

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 review

Please inform us 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.

Confirmation of audit independence

We confirm that as of 16 December 2010, 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



REPORT

To: Shetland Charitable Trust

16 December 2010

From: General Manager

Report: CT1012098

**Planned Maintenance - Swan Trust
Chairman's Approval of Additional Funding****1. Introduction**

- 1.1 This report is prepared to inform Trustees of a decision taken by the Chairman in terms of his authority under section IV para 9.5 of the Trusts Administrative Regulations, to take action on behalf of the Trust on matters which will not admit of delay.

2. Background

- 2.1 The Swan Trust (Registered Charity Number SC017598) was established in 1991 to acquire and restore the Shetland Fifie "Swan". The Swan is used to take parties of schoolchildren, young people and adults on trips for educational and recreational purposes.
- 2.2 Shetland Charitable Trust supports the Swan Trust by assisting with revenue funding, and by part funding its Planned Maintenance Programme.

3. Present Position

- 3.1 The Swan's last charter of the season was in Aberdeen, so it was decided to take the boat to Macduff for the general winter slipping. It was also seen as an opportunity to have the rigging surveyed, and to undertake the steering upgrade which was deferred from the previous year, and which could not be done in Shetland.
- 3.2 The rigging survey revealed that it was in much worse condition as thought, and in fact will to be completely replaced.
- 3.3 The Swan Trust has identified funding within its revenue budgets, which together with an underspend of £6,000 due to the deferral of the work on the steering, can fund most of the proposed works. However an additional sum of £12,000 is required to complete the rigging work.
- 3.4 The Swan Trust has requested permission to use the projected 2010/11 revenue underspend of some £20,000, which together with

the £6,000 from the 2009/10 maintenance budget, will make up the £48,000 required to complete the proposed work.

4. Financial Implications

4.1 The additional funding of £12,000 can be met from underspends within existing maintenance budgets.

5. Recommendation

5.1 Trustees are asked to note the Chairman's approval of the Swan Trust's request as follows:-

- a) to change the use of £20,000 in the current year's revenue budget to Planned Maintenance;
- b) to allow the Swan Trust to retain £6,000 of their 2009/10 budget; and
- c) additional funding of some £12,000 for unforeseen replacement of rigging.

Reference: EMATA12

Report Number CT1012098-f

REPORT

To: Shetland Charitable Trust

16 December 2010

From: Financial Controller

Report: CT1011092

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 September 2010 to 31 October 2010.

2.2 Appendix B lists the investment decisions made by BlackRock Investment Management (UK) Limited during the period from 1 September 2010 to 31 October 2010.

2.3 Appendix C lists the investment decisions made by Schroder Investment Management Limited during the period from 1 September 2010 to 31 October 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 the current financial year to date:

2010/11 to 26 Nov 2010

	£ million
Market Value at start	180.9
Market Movement	2.0
Injection/(Withdrawal)	(9.9)
Market Value at close	<u>173.0</u>

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

4. Recommendation

4.1 The Trustees are asked to note this report.

3

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	28-Oct-10	667,000.00	702,751.20
UK(GOVT OF) 4.25% GILT 07/12/2040 GBP	QF GB GB	13-Oct-10	643,000.00	669,491.60
ILF GBP LIQUIDITY FD	DEP	14-Sep-10	600,000.00	600,000.00
UK(GOVT OF) 4.25% STK 07/03/2011 GBP100	QF GB GB	08-Sep-10	584,000.00	594,704.72
UK(GOVT OF) 4.25% STK 07/12/2055 GBP100	QF GB GB	20-Oct-10	572,000.00	589,160.00
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	27-Oct-10	397,000.00	471,296.01
UK(GOVT OF) 0.625% I/L STK 22/11/42 GBP	QF GIL GB	05-Oct-10	428,000.00	451,398.60
UK(GOVT OF) 4.25% GILT 07/12/2040 GBP	QF GB GB	13-Sep-10	403,000.00	407,715.10
UK(GOVT OF) 0.625% I/L STK 22/11/42 GBP	QF GIL GB	05-Oct-10	370,000.00	389,955.01
ILF GBP LIQUIDITY FD	DEP	06-Sep-10	370,000.00	370,000.00
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	07-Sep-10	310,000.00	356,811.08
ILF GBP LIQUIDITY FD	DEP	08-Sep-10	320,000.00	320,000.00
UK(GOVT OF) 1.875% I/L STK 22/11/22 GBP	QF GIL GB	07-Sep-10	250,000.00	313,609.22
ILF GBP LIQUIDITY FD	DEP	06-Oct-10	280,000.00	280,000.00
UK(GOVT OF) 4% GILT 22/1/2060 GBP0.01	QF GB GB	26-Oct-10	275,608.00	270,150.96
ILF LIQUIDITY FD	DEP	27-Sep-10	240,000.00	240,000.00
UK(GOVT OF) 4% GILT 22/1/2060 GBP0.01	QF GB GB	26-Oct-10	223,515.00	218,960.88
UK(GOVT OF) 4% GILT 22/1/2060 GBP0.01	QF GB GB	26-Oct-10	223,516.00	218,442.19
UK(GOVT OF) 0.75% I/L STK 22/11/2047	QF GIL GB	07-Sep-10	187,000.00	212,662.93
UK(GOVT OF) 0.75% I/L STK 22/11/2047	QF GIL GB	03-Sep-10	187,000.00	210,698.40
UK(GOVT OF) 0.75% I/L STK 22/11/2047	QF GIL GB	03-Sep-10	181,000.00	204,133.19
UK(GOVT OF) 4% GILT 22/1/2060 GBP0.01	QF GB GB	26-Oct-10	198,680.00	194,926.93
UK(GOVT OF) 4% GILT 22/1/2060 GBP0.01	QF GB GB	26-Oct-10	198,681.00	193,813.32
UK(GOVT OF) 2.5% I/L STK 16/04/20 GBP	QF GIL GB	14-Oct-10	55,000.00	178,898.50
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	26-Oct-10	102,000.00	124,082.11
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	24-Sep-10	117,000.00	121,089.46
UK(GOVT OF) 2.5% I/L STK 26/07/16 GBP	QF GIL GB	14-Oct-10	33,000.00	104,791.50
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	15-Oct-10	102,000.00	103,993.99
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	26-Oct-10	103,000.00	103,470.38
UK(GOVT OF) 1.25% I/L STK 22/11/27 GBP	QF GIL GB	07-Oct-10	69,000.00	87,235.74
UK(GOVT OF) 2.5% I/L STK 26/07/16 GBP	QF GIL GB	14-Oct-10	27,000.00	85,711.50
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	07-Oct-10	68,000.00	84,798.64
UK(GOVT OF) 2.5% I/L STK 16/04/20 GBP	QF GIL GB	14-Oct-10	24,000.00	78,105.60
UK(GOVT OF) 0.75% I/L STK 22/11/2047	QF GIL GB	24-Sep-10	62,000.00	71,176.72
ILF GBP LIQUIDITY FD	DEP	07-Sep-10	50,000.00	50,000.00
ILF GBP LIQUIDITY FD	DEP	01-Oct-10	386.10	386.09
ILF LIQUIDITY FD	DEP	01-Sep-10	93.93	93.93
TOTAL UNITED KINGDOM				<u>9,674,515.50</u>
OVERSEAS				
UNITED STATES TREAS BDS 0 DEB 15/02/2040USD1000	QF GB US	15-Oct-10	1,549,000.00	1,077,650.77
UNITED STATES TREAS NTS DTD 00278 3.625%DUE 02=	QF GB US	03-Sep-10	847,000.00	592,588.72
TOTAL OVERSEAS				<u>1,670,239.49</u>

INSIGHT INVESTMENT MGMT REPORT - SALES

NAME OF SECURITY	AREA	DATE	NUMBER OF UNITS	SELLING PRICE (£)	PROFIT/ (LOSS) (£)
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QF = quoted fixed
UF = unquoted fixed

UNITED KINGDOM

UK(GOVT OF) 1.25% I/L STK 22/11/27 GBP	QF GIL GB	07-Sep-10	533,000.00	670,962.95	49,102.03
UK(GOVT OF) 1.25% I/L STK 22/11/27 GBP	QF GIL GB	07-Sep-10	355,000.00	447,216.80	33,031.76
UK(GOVT OF) 1.25% I/L STK 22/11/27 GBP	QF GIL GB	03-Sep-10	356,000.00	444,227.74	28,875.98
UK(GOVT OF) 4.25% GILT 07/12/2040 GBP	QF GB GB	05-Oct-10	633,000.00	667,182.00	19,167.69
UK(GOVT OF) 4.5% GILT 07/03/19 GBP0.01	QF GB GB	29-Oct-10	300,000.00	335,091.00	17,467.04
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	03-Sep-10	299,000.00	341,643.03	15,708.44
UK(GOVT OF) 1.25% I/L STK 22/11/27 GBP	QF GIL GB	24-Sep-10	167,000.00	209,966.44	15,124.46
UK(GOVT OF) 0.5% I/L STK 22/3/50 GBP	QF GIL GB	05-Oct-10	259,000.00	265,256.21	14,894.12
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	13-Sep-10	412,000.00	413,866.77	14,772.75
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	14-Oct-10	173,000.00	180,679.18	12,177.69
UK(GOVT OF) 1.25% I/L STK 22/11/17 GBP	QF GIL GB	14-Oct-10	144,000.00	185,157.61	9,040.89
UK(GOVT OF) 0.625% I/L STK 22/11/42 GBP	QF GIL GB	13-Oct-10	362,000.00	389,668.89	8,002.21
UK(GOVT OF) 1.875% I/L STK 22/11/22 GBP	QF GIL GB	24-Sep-10	170,000.00	213,082.15	7,908.36
UK(GOVT OF) 1.25% I/L STK 22/11/27 GBP	QF GIL GB	26-Oct-10	51,000.00	64,009.46	4,329.16
UK(GOVT OF) 1.25% I/L STK 22/11/27 GBP	QF GIL GB	15-Oct-10	27,000.00	34,201.65	2,606.20
UK(GOVT OF) 1.875% I/L STK 22/11/22 GBP	QF GIL GB	26-Oct-10	29,000.00	36,752.00	1,751.77
UK(GOVT OF) 0.5% I/L STK 22/3/50 GBP	QF GIL GB	26-Oct-10	66,000.00	65,432.68	1,633.85
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	05-Oct-10	160,000.00	185,730.11	1,569.55
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	07-Oct-10	150,000.00	174,165.91	1,515.39
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	14-Oct-10	68,000.00	86,095.41	1,296.77
MOYLE INTERCONNECT 2.9376% IND LNK 03/33GBP	QF CIL GB	30-Sep-10	433.55	535.56	58.40
ILF GBP LIQUIDITY FD	DEP	29-Oct-10	515,000.00	515,000.00	0.00
ILF GBP LIQUIDITY FD	DEP	28-Oct-10	480,000.00	480,000.00	0.00
ILF GBP LIQUIDITY FD	DEP	14-Oct-10	300,000.00	300,000.00	0.00
ILF GBP LIQUIDITY FD	DEP	13-Sep-10	625,000.00	625,000.00	0.00
UK(GOVT OF) 0.75% I/L STK 22/11/2047	QF GIL GB	15-Oct-10	61,000.00	68,754.08	-91.73
UK(GOVT OF) 0.75% I/L STK 22/11/2047	QF GIL GB	26-Oct-10	53,000.00	58,616.52	-1,200.33
UK(GOVT OF) 4.25% STK 07/03/2011 GBP100	QF GB GB	03-Sep-10	588,000.00	598,819.20	-1,411.20
UK(GOVT OF) 4.25% STK 07/03/2011 GBP100	QF GB GB	20-Oct-10	584,000.00	592,327.84	-2,376.88
UK(GOVT OF) 4.25% GILT 07/12/2040 GBP	QF GB GB	15-Oct-10	1,043,000.00	1,070,107.57	-8,871.74

TOTAL UNITED KINGDOM

9,719,548.76 246,082.62

OVERSEAS

UNITED STATES TREAS BDS 0 DEB 15/02/2040USD1000	QF GB US	26-Oct-10	968,800.00	687,171.02	13,169.69
UNITED STATES TREAS NTS DTD 00278 3.625%DUE 02=	QF GB US	08-Sep-10	847,000.00	602,462.30	9,873.58
UNITED STATES TREAS BDS 0 DEB 15/02/2040USD1000	QF GB US	26-Oct-10	273,100.00	194,931.45	4,933.76
UNITED STATES TREAS BDS 0 DEB 15/02/2040USD1000	QF GB US	26-Oct-10	307,100.00	218,162.10	4,510.36

TOTAL OVERSEAS

1,702,726.87 32,487.38

BLACKROCK REPORT - PURCHASES

NAME OF SECURITY	AREA QE = quoted equity UE = unquoted equity	DATE	NUMBER OF SHARES	PURCHASE PRICE (£)
UNITED KINGDOM				
NO UK INVESTMENTS PURCHASED				
TOTAL UNITED KINGDOM				<u>0.00</u>
OVERSEAS				
NO OVERSEAS INVESTMENTS PURCHASED				
TOTAL OVERSEAS				<u>0.00</u>

BLACKROCK REPORT - SALES

NAME OF SECURITY	AREA QE = quoted equity UE = unquoted equity	DATE	NUMBER OF SHARES	SELLING PRICE (£)	PROFIT/ (LOSS) (£)
UNITED KINGDOM					
BLACKROCK ADV (UK) CHARITRAK COMMON	INVEST UE UT GB	04-Oct-10	326,518.31	3,250,000.00	178,096.06
TOTAL UNITED KINGDOM				<u>3,250,000.00</u>	<u>178,096.06</u>
OVERSEAS					
BLACKROCK AM (IE) BGI NORTH AMERICAN IDXNAV	UE UT IE	04-Oct-10	58,702.06	450,000.00	41,628.99
BLACKROCK AM (IE) IDX SELECTION EURO EX UK AC	UE UT IE	04-Oct-10	74,127.94	900,000.00	32,673.23
BLACKROCK AM (IE) INDEX SELECTION JAPAN IDX	UE UT IE	04-Oct-10	74,118.07	400,000.00	27,260.28
AL OVERSEAS				<u>1,750,000.00</u>	<u>101,562.49</u>

SCHRODERS REPORT – PURCHASES

NAME OF SECURITY	AREA QE = quoted equity UE = unquoted equity	DATE	NUMBER OF SHARES	PURCHASE PRICE (£)
UNITED KINGDOM				
HERMES PROPERTY UT	UP UT GB	25-Oct-06	473,815.00	2,156,805.88
HERMES PROPERTY UT	UP UT GB	04-Oct-06	76,967.00	343,195.85
MAYFAIR CAP REITFUND	UP UT GB	12-Sep-06	110.00	110,000.00
TOTAL UNITED KINGDOM				<u>2,610,001.73</u>

OVERSEAS

NO OVERSEAS INVESTMENTS PURCHASED

TOTAL OVERSEAS	<u>0.00</u>
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SCHRODERS REPORT – SALES

NAME OF SECURITY	AREA QE = quoted equity UE = unquoted equity	DATE	NUMBER OF SHARES	SELLING PRICE (£)	PROFIT/ (LOSS) (£)
UNITED KINGDOM					
NO UK INVESTMENTS SOLD					
TOTAL UNITED KINGDOM				<u>0.00</u>	<u>0.00</u>
OVERSEAS					
NO OVERSEAS INVESTMENTS SOLD					
TOTAL OVERSEAS				<u>0.00</u>	<u>0.00</u>

REPORT

To: Shetland Charitable Trust

16 December 2010

From: Financial Controller

Report: CT1012093

Wind to Heat – SHEAP Ltd**1. Introduction**

- 1.1 The purpose of this report is to inform Trustees of progress on a possible development using wind energy to provide an additional and relatively attractively priced heat source for the District Heating Scheme. This would allow the Scheme to expand.
- 1.2 Officers of SHEAP and the Trust have been involved in meetings and discussions with SSE and Shetland Islands Council for some time now. The SHEAP Board has been kept informed of a project designed to use windmills at or near the Energy Recovery Plant to generate electricity to be used for heat for the use of the District Heating Scheme. The range of options has narrowed over time to the proposal outlined in this report. Trustees have discussed the scheme in private, at their last three meetings, but it can now be taken into the public part of today's meeting. Trustees have also received a presentation by SSE on wind to heat.

2. Proposed Project

- 2.1 There are still a good number of areas that need developing in detail, but I think its worthwhile to provide Trustees with an outline of the project at this stage before decisions will need to be made early next year.
- 2.2 The project is looking to site 3 x 2.3 MW Turbines at Luggies Knowe, a low hill between the Landfill Site and the Dales Voe Base. 2.3 MW Turbines are large machines, much bigger than those at the Burradale Wind Farm, but smaller than the 3.6 MW Turbines being considered by the Viking Energy project. The three machines together will be rated at 6.9 MW, and although this much power will be generated some of the time, it is assumed that the average output in the winter will be about 4 MW with about 2.5 MW in the summer.
- 2.3 It has been often said that the Shetland Grid cannot cope with any more renewable power sources, because such sources are variable.

However, this project also offers a linked variable customer. The District Heating Scheme incorporates a tank of hot water which is heated up at off-peak times. This thermal store can then release heat at the times of day when it is most needed. It operates as a 'heat battery'. The possible project would include a much larger thermal store, which could be charged with heat using electricity at times of day that suit the local grid. The large thermal store would allow expansion of the District Heating Scheme to allow up to around 300 more connections. The District Heating Scheme has been closed to new applications from 31 March 2007, and there is a long waiting list should it re-open. Although the Trust would have to invest further funds in SHEAP to expand its network, heat derived from wind at an appropriate cost, should lead to proportionally greater profits and support the investment on a commercial basis.

- 2.4 At this stage it seems that the owner(s) of the three turbines will make attractive profits, with indicative financial modelling showing an attractive rate of return. The wind farm project team is examining a structure where SSE and some combination of SCT/SHEAP and Shetland Islands Council co-invest on a 50:50 basis. The rate of return will be even more attractive for the SCT group due to our favourable tax position. The thermal store and other district heating scheme infrastructure may well be eligible for ERDF funding. Any grants won will further improve the project from SCT/SHEAP's perspective.

3. Progress Since The Last Trustee Meeting

- 3.1 SSE, SIC and SHEAP have run pre-planning exhibitions at halls in Bressay, Lerwick and Tingwall, at the end of November, on proposals for a three turbine (6.9 MW) windfarm at Gremista. The exhibition panels are available at the Trust's offices, should any Trustee wish to see them. All the members of the public who came to the exhibitions were generally supportive of the wind to heat project.
- 3.2 The large thermal store is an element of the Low Carbon Shetland project co-ordinated by the SIC. SSE's bid to Ofgem's Low Carbon Network Fund to develop a Shetland 'smart' grid, was not successful for various technical reasons. However, Ofgem was very impressed with the Shetland 'smart' grid project and are looking at alternative ways to fund it. These projects aim to reduce the current restraints on the Shetland Grid and so allow some more renewable generators to connect. Planning permission for the thermal store, to be located on an unused base at the power station, has been achieved.
- 3.3 If these projects come to fruition, further SCT investment in SHEAP will be needed to fund them. Trustees will recall that the Trust can only make investments that HMRC agree are 'qualifying'. I have met the Trust's Inspector of Taxes in Bootle, Liverpool, to discuss this potential investment, amongst others. He has confirmed that he will accept further investment in district heating scheme infrastructure, and in the 3 turbines, as qualifying, on application, provided suitable

evidence, in the form of business plans, is provided that the Trustees are investing to make money.

4. Financial Implications

- 4.1 There have been no costs incurred to date in the Trust beyond my time and some travel and subsistence expenses. The SHEAP Board has authorised its officers' time and a small amount of consultancy fees expenditure.
- 4.2 Trustees have agreed to buy shares in SHEAP to meet up to 50% of the costs to take the project through planning, about £100,000, with SSE meeting the other 50%.
- 4.3 At this stage the wind farm project looks an attractive investment. SIC and/or SCT/SHEAP might look to provide 50% of the funding for this, and receive 50% of the profits. The District Heating Scheme expansion will require investment on a commercial basis. The thermal store, pumping station and mains might also attract ERDF funding.

5. Conclusions

- 5.1 The project as envisaged looks to both provide the District Heating Scheme with more competitively priced heat and to be potentially a financially attractive investment.

6. Recommendations

- 6.1 I recommend that Trustees note progress on the wind to heat project.

Reference: JPG/sp/IS1

06/12/2010

Report Number CT1012093

REPORT**5.**

To: Shetland Charitable Trust

16 December 2010

From: General Manager

Report: CT1012097

**Future Governance Arrangements of Shetland Charitable Trust
Legal Advice Update****1. Introduction**

- 1.1 This report updates Trustees on the progress in seeking a legal opinion to determine if the constitution of the Trust requires to be changed in light of current OSCR opinion and Trust regulations.

2. Background

- 2.1 At their meeting on 8 September 2010, Trustees decided to ask Mr A Buchan, Chief Executive of Shetland Islands Council (SIC) and Dr A Black, General Manager of the Trust, to jointly identify the most relevant senior member of the Scottish legal system to determine if the constitution of the Trust requires to be changed in light of current OSCR opinion and trust regulations, and to make such recommendations as are necessary for the future governance of the Trust. (Min Ref CT/57/10)

3. Present Position

- 3.1 The SIC and the Trust have jointly appointed Roy Martin QC to provide the advice on options relating to the governance of the Trust. As a separate issue, the SIC has also asked Mr Martin to provide his legal opinion on the issue of grouping the Trust and SIC financial accounts.
- 3.2 A meeting will have been held in Edinburgh on 9 December 2010, with representatives of the Trust, SIC, Mr Martin and legal advisers Dundas and Wilson and Turcan Connell.

4. Financial Implications

- 4.1 There are no financial implications arising from this report. However it is recognised that there will be a cost attached to the advice.

5. Recommendation

- 5.1 Trustees are asked to note the progress made, and to expect a further report in due course.

Reference: EMA/AB/TA38

Report Number CT1012097-f

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