

Shetland Charitable Trust

**Trustees' report and consolidated
financial statements**

Charity number SC027025

31 March 2015

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Chair's introduction

We have now completed the second year of the newly constituted Shetland Charitable Trust. The first term of office for Appointed Trustees came to an end on 30 November 2014. Four Trustees left the Trust during the year and I would like to express my thanks to them all for their work and support. I would also like to welcome the new Trustees and I am sure they will make a valuable contribution to the Trust in the busy year ahead.

The three Advisory Committees have met regularly during the year. The Investment Advisory Committee has reviewed the Trust's investment in its subsidiary companies as well as the Trust's external investments, which resulted in a change in the Bond Portfolio. They also recommended the appointment of an external Financial Advisor to support the ongoing work of the Trust. The General Purposes Advisory Committee has been heavily involved in the review of the Disbursement Policy including developing the high level principles of the Trust and preparing a new Financial Plan to 31 March 2020. Finally, the Audit & Governance Advisory Committee has completely reviewed the Trust's Strategic Risks and a new Risk Register was agreed by Trustees in September 2014. They also undertook a tender process to appoint the External Auditor for the Trust.

As mentioned above, the Trust has approved a new Financial Plan which will see the spending of the Trust reduced to £8.5 million by 31 March 2020. To achieve this, the Trust will use c. £2m of the Trust reserves over the next 5 years while the funding reductions are implemented. Meantime, the Trust has set a one year holding budget for the year to 31 March 2016 while the disbursement review is completed. It is hoped the planned reduction in expenditure will allow the Trust to be self sustainable by 2020 and protect the reserves of the Trust against inflation for future generations.

I would like to take this opportunity to thank all the Trust staff for their hard work over the past year. I am also very grateful for the help and support received from all Trustees, especially the Chairs of the Committees and the Vice Chair, Jonathan Wills.



R W Hunter
Chair

10 September 2015

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

Selected

R W Hunter, Chair (reappointed 1 December 2014)
A B Cooper (appointed 26 March 2015)
E L Fullerton (resigned 28 February 2015)
C Hughson (resigned 30 November 2014)
I Kinniburgh (resigned 30 November 2014)
T Macintyre (appointed 29 May 2015)
P Malcolmson (appointed 26 March 2015)
K I Massey
S M Morgan (resigned 26 March 2015)
T M Morton (appointed 26 March 2015, resigned 8 July 2015)
I R Napier
J L B Smith (reappointed 1 December 2014)

Appointed by Shetland Islands Council

J W G Wills, Vice Chair
M J Bell
A G L Duncan
R S Henderson
A I Manson
W A Ratter
A J Westlake

Chief Executive Dr Ann Black

Bankers Bank of Scotland
117 Commercial Street
Lerwick
ZE1 0DL

Auditor KPMG LLP
191 West George Street
Glasgow
G2 2LJ

Solicitors -

| | | | |
|-----------------------------------|--|-------------------|--|
| Governance and Charity Law | Turcan Connell Princes Exchange 1 Earl Grey Street Edinburgh EH3 9EE | Commercial | Maclay Murray & Spens LLP Quartermile One 15 Lauriston Place Edinburgh EH3 9EP |
|-----------------------------------|--|-------------------|--|

Investment Managers Insight Investment Management (Global) Limited
160 Queen Victoria Street,
London,
EC4V 4LA

BlackRock Global Investors Limited
Drapers Gardens
12 Throgmorton Avenue
London
EC2N 2DL

Schroders Property Managers
31 Gresham Street
London
EC2V 7QA

Trustees' Report *(continued)*

Section 1: Reference and Administrative Details *(continued)*

| | |
|------------------------------|---|
| Custodian | The Northern Trust Company 50 Bank Street Canary Wharf London E14 5NT |
| Investment Consultant | Hymans Robertson LLP 20 Waterloo Street Glasgow G2 6DB |
| Investment Monitor | State Street 525 Ferry Road Edinburgh EH5 2AW |
| Financial Advisor | Noble Grossart 48 Queen Street Edinburgh EH2 3NR |

Section 2: Structure, Governance and Management

Governing Document

The Shetland Charitable Trust (the Trust) was established by a Deed of Trust which was registered in the Books of Council and Session on 27 September 2012.

The Trust Deed and its schedules appoint Trustees, state the charitable purposes of the Trust and also set out the powers of the Trustees.

Charitable Status

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

Trustees – Appointment, Induction and Training

The Trust is made up of eight appointed Trustees recommended by a selection panel and appointed by the Trustees, and seven Councillor Trustees who are elected members of, and appointed by, Shetland Islands Council.

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

Management and Administration

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

The Trust's procedures are governed by a set of Administrative Regulations. This public document has been updated to reflect the changes in administration and is available through the Trust's website, www.shetlandcharitabletrust.co.uk.

Trustees' Report *(continued)*

Section 2: Structure, Governance and Management *(continued)*

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.

Subsidiary Companies

The Trust has four wholly owned subsidiary companies. The following are the directors of the companies:

| | |
|--|---|
| Shetland Leasing and Property Developments Limited (SLAP) | Susan Groat – Chair William Manson Michael Thomson (Appointed 18 August 2014) |
|--|---|

| | |
|---|--|
| Shetland Heat Energy and Power Limited (SHEAP) | Andrew Blackadder - Chair Paul Clelland (Resigned 18 May 2014) Ian Kinniburgh (Appointed 13 August 2014) Keith Massey (Appointed 13 August 2014) Martin Tregonning (Resigned 24 July 2014) |
|---|--|

CT Shetland (TM) Limited is a dormant company whose present purpose is to register and own certification trademarks, for example knitwear trademarks.

| | |
|------------------------------------|--------------|
| C. T. Shetland (TM) Limited | Keith Massey |
|------------------------------------|--------------|

SCT Renewables Limited has a 90% interest in Viking Energy Shetland LLP 'the Shetland Partner' in the Viking Energy Partnership.

| | |
|-------------------------------|-------------|
| SCT Renewables Limited | James Smith |
|-------------------------------|-------------|

Risk Management

The Audit & Governance Advisory Committee has reviewed all the Trust risk's and prepared a new Strategic Risk Management Assessment. The Committee felt that the previous strategic risks should be separated into Strategic and Operational Risks and that the Operational Risks should be managed by the Chief Executive. They also identified that a number of the risks could be consolidated into a single strategic risk.

As a result of this review, a new Risk Management Assessment was presented to Trustees on 11 September 2014. The five strategic key risks are:

| No. | Risk | Current Risk Level | Lead Committee |
|-----|---|--------------------|---------------------------------------|
| 1 | Poor Governance | Amber | Audit & Governance Advisory Committee |
| 2 | Poor Investment Decisions | Amber | Investment Advisory Committee |
| 3 | Loss of Charitable Status | Amber | Audit & Governance Advisory Committee |
| 4 | Poor Reputation | Amber | General Purposes Advisory Committee |
| 5 | Poor operation of subsidiary companies resulting in loss of earnings to the Trust | Amber | Audit & Governance Advisory Committee |

Each of these Committees will take responsibility for ensuring the risk is reviewed regularly and identify the steps required to mitigate these risks. All recommendations from the Committees will be reported annually to the Board of Trustees for consideration and approval.

Trustees' Report *(continued)*

Section 2: Structure, Governance and Management *(continued)*

Disclosure of information to auditor

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

Section 3: Objectives and Activities

Priorities

Trustees have identified a number of priorities which link to the objects, which are set out in the Trust Deed, which is on the Trust's website. Priority will be given to supporting projects and activities which:

- contribute to a balanced provision of public services within Shetland
- support services to people in need
- support services for the elderly
- support services for children and young people
- contribute to maintaining and developing Shetland's environment
- contribute to diversifying Shetland's economic base
- contribute to the removal of the so-called "dependency culture"
- support employment in rural areas

Strategic Partnerships

The Trust is a key partner in the Shetland Community Planning Partnership, which sets strategic direction for the community of Shetland. The role of the Partnership is to support and enhance community planning with particular regard for community engagement and partnership working. The Partnership also brings together those involved in working towards the outcomes of the Shetland Community Plan, to provide an effective link between strategic direction and coordinated planning.

In furtherance of its charitable activities set out 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 other community and public bodies. Rather than employ people who are experts in particular fields, the Trust seeks advice from appropriate professional bodies as to what activities it might carry out for the public benefit of the inhabitants of Shetland.

The Trust also uses Service Co-ordinators to provide professional advice, with the final decision to support a project or activity lying with the Trustees. Any grant recipient is subject to "performance monitoring", which is carried out with the expert help of the Service Co-ordinators.

Grant Making Policy

The Trust is primarily a strategic funding body providing funding for other organisations to carry out their 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.

Financial Objectives

In the three year period ending on 31 March 2015, Trustees agreed that annual expenditure needed to be reduced by £1.2 million to £11 million to comply with the Trust's long term strategy of 'self sustainability', i.e. only spending the (average) growth in the fund after inflation, and so preserving the real value of the capital sum.

Trustees have agreed to continue with the long-term financial strategy of passing the "pot" on to future generations, and so limiting annual expenditure to the average growth on the investments above inflation. The year to 31 March 2015 is the last year of the three year funding packages currently offered.

Trustees' Report (continued)

Section 3: Objectives and Activities (continued)

Trustees have approved a new Financial Plan which will run to 31 March 2020. The aim of this plan is to reduce the expenditure of the Trust to £8.5 million by 2020. It was felt that the maximum expenditure of £11 million in the previous financial plan did not allow the Trust to be sustainable. A standstill budget has been set for the year to 31 March 2016 while the disbursements review is completed.

Budgets

Each year the Trustees adopt a budget for the incoming financial year. Details of the budget approved by Trustees are given in column one of the tables on pages 7 and 8, with details of the actual spend in column two, and a comparison with the previous year in column three.

Section 4: Achievements and Performance

During the year to 31 March 2015, 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 |
| • Disability Shetland | • Shetland Churches Council Trust |
| • Festivals: Folk Festival | • Festivals: Fiddle and Accordion |
| • New Shetlander | • Voluntary Action Shetland |
| • Shetland Link-up | • Shetland Recreational Trust |
| • Shetland Amenity Trust | • The Swan Trust |

The Trust allows organisations which it funds to hold small reserves for unforeseen items and to help with cash flow, rather than them having to return all unspent balances to the Trust.

The Trust has worked with the organisations funded to develop a system of service performance reporting. Trustees considered a progress report on service performance in September 2014, which set out, in detail, how the Trust's money makes a difference to people and communities. On the whole, Trustees were satisfied that most organisations were performing satisfactorily against their stated targets, and there were no significant areas of concern.

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

- | | |
|--------------------------------------|-------------------------------------|
| • Financial Hardship Scheme | • Rural Care Model |
| • Community Support Grant Aid Scheme | • Local Charitable Organisations |
| • Arts Grant Aid Scheme | • Social Assistance Grants |
| • Senior Citizen's Clubs | • Bus Services Elderly and Disabled |

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 facilities in Unst, Yell, Brae, Aith, Whalsay, Scalloway and Sandwick
- The Clickimin Complex in Lerwick
- 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

Details of the activities and performance of the Trust's subsidiary companies are provided in Section 5 of this report. In summary, SLAP and SHEAP have generated profits for the Trust in 2014/15. The rental from the land at the Sullom Voe terminal also made a contribution.

Trustees' Report *(continued)*

Section 4: Achievements and Performance *(continued)*

Charitable Expenditure

| | 2014/15 budget £ | Actual spend to 31 March 2015 £ | 2014 spend £ |
|--|------------------------|--|--------------------|
| <u>Trusts over £0.5m</u> | | | |
| Shetland Amenity Trust | 1,052,728 | 1,052,728 | 1,052,728 |
| Shetland Arts Development Agency | 696,038 | 696,038 | 696,038 |
| Shetland Recreational Trust | 2,518,550 | 2,518,550 | 2,518,550 |
| <u>Other Charitable Organisations</u> | | | |
| Disability Shetland Recreation Club | 12,641 | 12,641 | 12,641 |
| The Swan Trust | 44,650 | 44,650 | 44,650 |
| VAS - New Shetlander | 670 | 670 | 670 |
| Shetland Churches Council Trust | 54,055 | 54,055 | 54,055 |
| Shetland Befriending Scheme | 54,418 | 54,418 | 54,418 |
| Citizens Advice Bureau | 132,265 | 132,265 | 147,383 |
| COPE Limited | 154,967 | 154,967 | 154,967 |
| Couple Counselling Shetland | - | - | 12,000 |
| Shetland Link Up | 47,994 | 47,994 | 47,994 |
| Voluntary Action Shetland | 144,367 | 135,754 | 144,368 |
| Festival Grants | 30,000 | 30,000 | 30,000 |
| Local Charitable Organisations | 14,000 | 11,552 | 11,552 |
| Royal Voluntary Service | 47,622 | 47,622 | 47,622 |
| Peer education project | - | - | 12,000 |
| Sub Total Organisations | 5,004,965 | 4,993,904 | 5,041,636 |

Trustees' Report *(continued)*

Section 4: Achievements and Performance *(continued)*

| | 2014/15 budget £ | Actual spend to 31 March 2015 £ | 2014 spend £ |
|---|------------------------|--|--------------------|
| <u>Schemes</u> | | | |
| Community Development Grants | - | - | 6,951 |
| Community Support Grants | 54,241 | 52,967 | 77,703 |
| Arts Grant Scheme | 35,000 | 26,658 | 29,366 |
| Senior Citizen's Clubs | 20,000 | 12,828 | 15,531 |
| Support to Rural Care Model | 2,491,000 | 2,491,000 | 2,491,000 |
| Social Assistance Grants | 5,000 | - | 1,032 |
| Buses for Elderly and Disabled | 49,980 | 49,980 | 49,980 |
| Supported Employment | - | - | 7,514 |
| Sub Total Schemes | 2,655,221 | 2,633,433 | 2,679,077 |
| <u>Direct Schemes</u> | | | |
| Springfield Chalet | - | - | 819 |
| Financial Hardship Scheme | 157,000 | 157,382 | 382,026 |
| Planned Maintenance | 1,771,664 | 1,715,710 | 1,562,497 |
| Sub Total Direct Schemes | 1,928,664 | 1,873,092 | 1,945,342 |
| <u>One-Off Projects</u> | | | |
| Scalloway Swimming Pool Roof | - | - | (413) |
| Sub Total One-Off Projects | - | - | (413) |
| Surplus Grants Refunded | - | (76,695) | (229,295) |
| Sub-total charitable expenditure | 9,588,850 | 9,423,734 | 9,436,347 |
| Trust Administration, including governance costs | 508,860 | 437,108 | 693,699 |
| Total | 10,097,710 | 9,860,842 | 10,130,046 |

Total charitable expenditure and administration costs are shown before adjustment for pension adjustments under FRS 17 totalling £80,000, and reallocation of governance costs, as detailed in Note 2 to the financial statements.

Trustees' Report *(continued)*

Section 5: Financial Review

Growth and Unrestricted Funds

The Trust relies chiefly on funds generated by investments on the world's markets. Around £24.8 million was generated in 2014/15. This includes the growth in value of the investments as well as dividend income received. In addition, in 2014/15, around £3.7 million income was derived from investments in Shetland, valued at around £28 million. These investments are 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 financial statements, 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 2015) of the Trust's reserves that are invested to generate income (i.e. not the 'Donated Properties') is around £229.9 million. Trustees seek to minimise risk through diversification within its investments 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.

Investments

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

2014/15 was a good year for investment returns, achieving £27.6 million (about 12%).

Stock Exchanges

As at 31 March 2015, three fund managers managed the Trust's Stock Exchanges portfolio. BlackRock Global Investors manage around £117 million invested in equities (shares), Insight Investment manage around £60 million in bonds, and Schroders Property Managers manage around £30 million in commercial property.

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 £19 million and it generated rental income of over £2.4 million in 2014/15. The Board of Directors resolved to make a gift aid payment of £2.2 million to the Trust in the financial year 2014/15. This mechanism means that neither body pays tax on the profits.

Shetland Heat Energy and Power Limited (SHEAP) is a wholly owned subsidiary of the Trust, set up to operate the Lerwick District Heating Scheme. SHEAP has over 1,100 customers receiving heat. The Board of Directors resolved to make a gift aid payment of £0.4 million to the Trust in the financial year 2014/15.

SCT Renewables Limited is a 100% owned subsidiary of the Trust. The Trust has invested £6.6 million at 31 March 2015. It participates in the Viking Energy project which is investigating a very large wind farm project in central Shetland.

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*.

Trustees' Report *(continued)*

Section 5: Financial Review *(continued)*

Decisions about Investments

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

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

Section 6: Plans For The Future

The Trust is currently concentrating on the financial sustainability of the Trust. The Financial Plan which has been approved aims to reduce expenditure to £8.5 million by 2020. Trustees will have to concentrate on completing the final parts of the Disbursements Review in order to implement required measures to achieve the plan.

The Trust will also be seeking expert financial advice on the Viking Energy Project and any potential further investment by the Trust.

Finally, the Trust must undertake a review of its Governance by 2017 as was agreed when the Trust was reconstituted. This review is to be completed during 2016.


R W Hunter
Chair

10 September 2015

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

Under charity law, the Trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. Charity law requires the Trustees to prepare financial statements for each financial year. The group and charity's financial statements are required by law to give a true and fair view of the state of affairs of the group and the charity and of the groups and the charity's 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 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended) 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.



191 West George Street
Glasgow
G2 2LJ
United Kingdom

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

We have audited the group and charity financial statements ("the financial statements") of Shetland Charitable Trust for the year ended 31 March 2015 set out on pages 13 to 34. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of Trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities set out on page 11, the Trustees are responsible for the preparation of financial statements which give a true and fair view.

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the charity's affairs as at 31 March 2015 and of the group's and charity's incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Matters on which we are required to report by exception

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

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

Bruce Marks

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

KPMG LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

11 September 2015

Consolidated statement of financial activities

for the year ended 31 March 2015

| | | Unrestricted funds | | 2015 | 2014 |
|--|------|--------------------|----------------------|-----------------|----------|
| | | General funds | Expendable endowment | Total | Total |
| | Note | £000 | £000 | £000 | £000 |
| Incoming resources | | | | | |
| <i>Incoming resources from generated funds</i> | | | | | |
| Activities for generating funds – trading subsidiaries | 6 | 4,620 | - | 4,620 | 4,501 |
| Investment income | | 4,675 | - | 4,675 | 4,760 |
| Donations | | - | - | - | 83 |
| <i>Other incoming resources</i> | | | | | |
| Rental income | | 1,047 | - | 1,047 | 986 |
| Other income | | 6 | - | 6 | 122 |
| Total incoming resources | | 10,348 | - | 10,348 | 10,452 |
| Resources expended | | | | | |
| <i>Cost of generating funds</i> | | | | | |
| Expenditure of trading subsidiaries | 6 | (2,237) | - | (2,237) | (2,756) |
| Investment management costs | | (497) | - | (497) | (273) |
| Provision made against equity investment | 6 | (247) | - | (247) | (87) |
| <i>Charitable activities</i> | 2 | (9,841) | (1,216) | (11,057) | (11,318) |
| <i>Governance costs</i> | 2 | (101) | - | (101) | (103) |
| Total resources expended | | (12,923) | (1,216) | (14,139) | (14,537) |
| Net outgoing resources before other recognised gains and losses | | (2,575) | (1,216) | (3,791) | (4,085) |
| Other recognised gains and losses | | | | | |
| Gains on managed fund investments | 12 | - | 20,214 | 20,214 | 7,377 |
| Actuarial gains/(losses) in defined benefit pension scheme | 12 | 250 | - | 250 | (117) |
| Realised loss on revaluation of investment properties | 12 | (17) | - | (17) | (55) |
| Net movement in funds | | (2,342) | 18,998 | 16,656 | 3,120 |
| Fund balances brought forward | 12 | (2,546) | 231,588 | 229,042 | 225,922 |
| Fund balances carried forward | | (4,888) | 250,586 | 245,698 | 229,042 |

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 19 to 34 form a part of the financial statements.

Trust statement of financial activities

for the year ended 31 March 2015

| | | Unrestricted funds | | 2015 | 2014 |
|--|------|------------------------|------------------------------|------------------------------|-----------------------|
| | Note | General funds £000 | Expendable endowment £000 | Total £000 | Total £000 |
| Incoming resources | | | | | |
| <i>Incoming resources from generated funds</i> | | | | | |
| Investment income | | 4,675 | - | 4,675 | 4,737 |
| Gift aid receipts from subsidiary undertakings | 6 | 2,482 | - | 2,482 | 2,555 |
| Donations | | - | - | - | 83 |
| <i>Other incoming resources</i> | | | | | |
| Rental income | | 1,047 | - | 1,047 | 986 |
| Other income | | 6 | - | 6 | 173 |
| Total incoming resources | | <u>8,210</u> | <u>-</u> | <u>8,210</u> | <u>8,534</u> |
| Resources expended | | | | | |
| <i>Cost of generating funds</i> | | | | | |
| Investment management costs | | (497) | - | (497) | (273) |
| Provision made against equity investment | 6 | (193) | - | (193) | (150) |
| <i>Charitable activities</i> | 2 | (9,841) | (1,216) | (11,057) | (11,318) |
| <i>Governance costs</i> | 2 | (101) | - | (101) | (103) |
| Total resources expended | | <u>(10,632)</u> | <u>(1,216)</u> | <u>(11,848)</u> | <u>(11,844)</u> |
| Net outgoing resources before other recognised gains and losses | | (2,422) | (1,216) | (3,638) | (3,310) |
| Other recognised gains and losses | | | | | |
| Gains on managed fund investments | 12 | - | 20,214 | 20,214 | 7,377 |
| Actuarial gains/(losses) in defined benefit pension Scheme | 12 | 250 | - | 250 | (117) |
| Net movement in funds | | <u>(2,172)</u> | <u>18,998</u> | <u>16,826</u> | <u>3,950</u> |
| Total funds brought forward | | <u>(8,052)</u> | <u>231,588</u> | <u>223,536</u> | <u>219,586</u> |
| Fund balances carried forward | | <u><u>(10,224)</u></u> | <u><u>250,586</u></u> | <u><u>240,362</u></u> | <u><u>223,536</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 19 to 34 form a part of the financial statements.

Consolidated balance sheet

as at 31 March 2015

| | Note | 2015 £000 | 2015 £000 | 2014 £000 | 2014 £000 |
|---|------|----------------|----------------|----------------|----------------|
| Fixed assets | | | | | |
| Tangible assets | 4 | | 25,472 | | 28,449 |
| Investments | 5 | 207,011 | | 188,929 | |
| Programme-related investments | 6, 7 | 4,718 | | 4,808 | |
| | | | 211,729 | | 193,737 |
| Total fixed assets | | | 237,201 | | 222,186 |
| Current assets | | | | | |
| Stocks | | 38 | | 59 | |
| Debtors | 8 | 3,363 | | 2,412 | |
| Cash at bank and in hand | | 8,600 | | 8,060 | |
| | | | | | |
| Total current assets | | 12,001 | | 10,531 | |
| Creditors: amounts falling due within one year | 9 | (1,656) | | (1,605) | |
| | | | | | |
| Net current assets | | | 10,345 | | 8,926 |
| | | | | | |
| Total assets less current liabilities | | | 247,546 | | 231,112 |
| Provisions for liabilities and charges | 10 | | (223) | | (275) |
| | | | | | |
| Net assets excluding pension liability | | | 247,323 | | 230,837 |
| Pension liability | 13 | | (1,625) | | (1,795) |
| | | | | | |
| Net assets including pension liability | | | 245,698 | | 229,042 |
| Represented by: | | | | | |
| Expendable endowment | 11 | | 250,586 | | 231,588 |
| Unrestricted income funds: | 12 | | | | |
| General funds | | | (8,406) | | (6,258) |
| Trading funds | | | 5,014 | | 5,361 |
| Revaluation reserve | | | 129 | | 146 |
| | | | | | |
| Unrestricted income funds excluding pension reserve | | | (3,263) | | (751) |
| Pension reserve | 12 | | (1,625) | | (1,795) |
| | | | | | |
| Total unrestricted income funds | 12 | | (4,888) | | (2,546) |
| | | | | | |
| Total group funds | | | 245,698 | | 229,042 |

These financial statements were approved by the trustees on 10 September 2015 and were signed on their behalf by:

R W Hunter
Chairman

J W G Wills
Vice-Chairman


The notes on pages 19 to 34 form a part of these financial statements.

Trust balance sheet

as at 31 March 2015

| | Note | 2015 £000 | 2015 £000 | 2014 £000 | 2014 £000 |
|---|------|--------------|-----------------|--------------|----------------|
| Fixed assets | | | | | |
| Tangible assets | 4 | | 5,983 | | 7,199 |
| Investments | 5 | 207,011 | | 188,929 | |
| Programme-related investments | 6, 7 | 22,731 | | 22,768 | |
| | | | 229,742 | | 211,697 |
| Total fixed assets | | | 235,725 | | 218,896 |
| Current assets | | | | | |
| Debtors | 8 | 3,225 | | 3,277 | |
| Cash at bank and in hand | | 3,495 | | 3,331 | |
| Total current assets | | 6,720 | | 6,608 | |
| Creditors: amounts falling due within one year | 9 | (458) | | (173) | |
| Net current assets | | | 6,262 | | 6,435 |
| Net assets excluding pension liability | | | 241,987 | | 225,331 |
| Pension liability | 13 | | (1,625) | | (1,795) |
| Net assets including pension liability | | | 240,362 | | 223,536 |
| Represented by: | | | | | |
| Expendable endowment | 11 | | 250,586 | | 231,588 |
| Unrestricted income funds: | | | | | |
| General funds | 12 | | (8,599) | | (6,257) |
| Pension reserve | 12 | | (1,625) | | (1,795) |
| Total unrestricted income funds | 12 | | (10,224) | | (8,052) |
| Total Trust funds | | | 240,362 | | 223,536 |

These financial statements were approved by the trustees on 10 September 2015 and were signed on their behalf by:


R W Hunter
Chairman


J W G Wills
Vice-Chairman

The notes on pages 19 to 34 form a part of these financial statements.

Consolidated cash flow statement

for the year ended 31 March 2015

| | 2015 £000 | 2015 £000 | 2014 £000 | 2014 £000 |
|--|--------------|-----------------|--------------|----------------|
| Net cash outflow from operating activities | | (6,061) | | (8,574) |
| Returns on investment and servicing of finance | | | | |
| Investment income and interest received | | 4,675 | | 4,760 |
| Capital expenditure and financial investment | | | | |
| Purchase of managed funds investments | (231,987) | | (56,562) | |
| Purchase of tangible fixed assets | (280) | | (1,055) | |
| Purchase of shares within joint venture | 90 | | (746) | |
| Sale of managed funds investments | 212,531 | | 59,233 | |
| | <hr/> | | <hr/> | |
| Net cash (outflow)/inflow from capital expenditure and financial investment | | (19,646) | | 870 |
| Management of liquid resources | | | | |
| Net movement in cash flows attributable to managed fund investments | | 1,832 | | 282 |
| Funds withdrawn from short term deposit (net) | | 19,740 | | 3,385 |
| | | <hr/> | | <hr/> |
| Increase in cash in the year | | 540 | | 723 |
| | | <hr/> <hr/> | | <hr/> <hr/> |

Notes to the consolidated cash flow statement

for the year ended 31 March 2015

| | | |
|---|--------------------------|--------------------------|
| Reconciliation of net outgoing resources to net cash outflow from operating activities | 2015 £000 | 2014 £000 |
| Net outgoing resources before other recognised gains and losses | (3,791) | (4,085) |
| Loss on sale of fixed assets | 1,254 | 41 |
| Investment income and interest receivable | (4,675) | (4,760) |
| Depreciation and impairment of tangible fixed assets | 2,003 | 2,001 |
| Movement in pension liability, excluding actuarial gains and losses | 80 | 85 |
| (Decrease)/increase in stock | 21 | (11) |
| Increase in debtors | (951) | (107) |
| Increase/(decrease) in creditors | 50 | (1,717) |
| Decrease in provisions | (52) | (21) |
| Net cash outflow from operating activities | (6,061) | (8,574) |
| Reconciliation of net cash flow to movement in net funds | 2015 £000 | 2014 £000 |
| Increase in cash in the year | 540 | 723 |
| Cash (outflow)/inflow from (decrease)/increase in liquid resources | (2,779) | 183 |
| Change in net funds resulting from cash flows | (2,239) | 906 |
| Net funds at the start of the year | 13,976 | 13,070 |
| Net funds at the end of the year | 11,737 | 13,976 |
| Net funds comprise: | | |
| Cash in hand held by investment managers | 3,137 | 5,916 |
| Cash at bank and in hand | 8,600 | 8,060 |
| | 11,737 | 13,976 |

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.

Shetland Charitable Trust has three 100% owned subsidiary companies which are trading. The Trust and its subsidiaries have taken advantage of the exemption contained in FRS 8 *Related parties* and have therefore not disclosed transactions or balances between the parent or entities which form part of the group (or investees of the group qualifying as related parties).

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 SCT Renewables Limited (formerly known as 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.

In accordance with FRS 21 *Events after the balance sheet date*, gift aid payments are accounted for in the subsidiary undertakings in the year in which an irrevocable commitment to make a payment has been 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 SCT Renewables Limited, adjusted to remove interest payable by the Trust to those companies and gift aid payments to the Trust by those companies.

Incoming resources

Activities for generating funds

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

Turnover in SCT Renewables Limited represents miscellaneous income only as the company is not yet trading fully.

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 (i.e. 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)

Tangible fixed assets and depreciation (continued)

The asset value of the Sullom Voe site is being depreciated over its estimated remaining economic life of ten years commencing 1 April 2012, and the district heating scheme infrastructure is depreciated over a period of 30 years commencing on 1 April 2004. The depreciation is charged to the expendable endowment. No depreciation is provided in respect of freehold land.

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

Investment properties

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

Taxation

The Trust is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2011 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the Trust is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2011 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes. There is no similar exemption for VAT.

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

Pension costs

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

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

Stock

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

Cash and liquid resources

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

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

Notes (continued)

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

Charitable expenditure

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

| | 2015 £000 | 2014 £000 |
|--|--------------|--------------|
| General funds | | |
| Payments to charitable organisations | 4,994 | 5,041 |
| Schemes | 2,634 | 2,679 |
| Direct schemes | 1,873 | 1,945 |
| Charitable grants repaid | (76) | (229) |
| | <hr/> | <hr/> |
| Total charitable grants | 9,425 | 9,436 |
| Support costs, excluding governance costs (below) | 336 | 591 |
| Pension adjustments under FRS 17 | 80 | 85 |
| | <hr/> | <hr/> |
| Total charitable expenditure – general funds | 9,841 | 10,112 |
| | <hr/> | <hr/> |
| Expendable endowment | | |
| Depreciation – see note 4 | 1,216 | 1,206 |
| | <hr/> | <hr/> |
| Total resources expended on charitable activities | 11,057 | 11,318 |
| | <hr/> | <hr/> |

Included within Direct Schemes are the Trust's Financial Hardship Scheme payments to pensioners and disabled persons and Social Assistance grants, both of which are payable to individuals. Some payment from the Arts Grant Scheme are also made 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 £336,000 (2014: £591,000) principally represent administration expenses and are all deemed to be attributable to the group's charitable activities. Included within administration expenses is £497,000 (2014: £696,000) in respect of staff costs (see note 3), of which £267,405 (2014: £309,948) was charged to subsidiaries.

Governance costs

Governance costs totalling £101,000 (2014: £103,000) comprise the costs associated with the Trust's compliance with charity regulation and good practice. They include £29,000 (2014: £30,000) representing an appropriate apportionment of salary costs based on the proportion of the Chief Executives time spent on governance, together with Trustees' expenses (note 3), and audit fees of £21,000 (2014: £25,000).

| | Group and charity | |
|--|--------------------------|------------------------|
| | Total 2015 £'000 | Total 2014 £'000 |
| Allocation of staff and support costs, including Trustees' allowance and expenses (see note 3) | 29 | 30 |
| Other costs | 51 | 48 |
| External auditor's remuneration: | | |
| Audit of these financial statements | 21 | 25 |
| Audit of subsidiary undertakings (excluded from charitable governance costs) | 11 | 18 |
| Other services: taxation in relation to subsidiary undertakings | 7 | 18 |
| | <hr/> | <hr/> |
| Total governance costs | 101 | 103 |
| | <hr/> | <hr/> |

Notes (continued)

3 Staff numbers and costs

The group had an average of 13 employees during the year (2014: 13). The aggregate payroll cost of these employees was as follows:

| | 2015 £000 | 2014 £000 |
|-----------------------|--------------|--------------|
| Wages and salaries | 399 | 523 |
| Social security costs | 31 | 34 |
| Pension costs | 67 | 139 |
| | <u>497</u> | <u>696</u> |

Employee costs totalling £267,405 (2014: £309,948) were charged by Shetland Charitable Trust in respect of work performed by its subsidiary companies. Six employees worked wholly or mainly on Shetland Heat Energy and Powers Limited's activities during the year. One employee worked part-time on SCT Renewables Limited's activities during the year.

No employee (2014: one employee) received an emolument totalling between £70,000 and £79,999 and one employee (2014: none) received an emolument totalling between £80,000 and £89,999. Retirement benefits are accruing to these members of staff under a defined benefit pension scheme; contributions in 2014/15 totalled £12,548. No other employees received emoluments totalling in excess of £60,000 in either the current or previous financial year.

Expenses totalling £3,962 (2014: £4,091) were reimbursed to 5 trustees (2014: 6 trustees) during the year.

4 Tangible fixed assets

| Group | Land and buildings £000 | District heating scheme infrastructure £000 | Investment properties £000 | Vessel and aircraft £000 | Other plant and machinery and AUC £000 | Total £000 |
|--------------------------|-------------------------------|--|----------------------------------|--------------------------------|--|---------------|
| Cost or valuation | | | | | | |
| At beginning of year | 25,482 | 17,137 | 17,734 | 865 | 4,437 | 65,655 |
| Additions | - | - | 171 | - | 109 | 280 |
| Disposals | (48) | - | (1,226) | - | - | (1,274) |
| Transfers | - | - | 1,992 | - | (1,992) | - |
| | <u>25,434</u> | <u>17,137</u> | <u>18,671</u> | <u>865</u> | <u>2,554</u> | <u>64,661</u> |
| Depreciation | | | | | | |
| At beginning of year | 22,818 | 12,573 | - | 456 | 1,359 | 37,206 |
| Charge for year | 990 | 227 | - | 34 | 752 | 2,003 |
| Disposals | (20) | - | - | - | - | (20) |
| | <u>23,788</u> | <u>12,800</u> | <u>-</u> | <u>490</u> | <u>2,111</u> | <u>39,189</u> |
| Net book value | | | | | | |
| At 31 March 2015 | <u>1,646</u> | <u>4,337</u> | <u>18,671</u> | <u>375</u> | <u>443</u> | <u>25,472</u> |
| At 31 March 2014 | <u>2,664</u> | <u>4,564</u> | <u>17,734</u> | <u>409</u> | <u>3,078</u> | <u>28,449</u> |

Notes (continued)

4 Tangible fixed assets (continued)

Land and buildings primarily consist of the site at Sullom Voe, plus the six rural care homes, previously operated by Shetland Welfare Trust, and donated to the Trust in 2007. The rural care homes had been previously funded by the Trust and the capital grant conditions applied to the 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 2013 by Stephen Johnston BSc FRICS of David Adamson & Partners. These valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual Practice Statements.

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

| | 2015 £000 | 2014 £000 |
|---|--------------|--------------|
| Plant and machinery, fixtures and fittings held by Shetland Heat Energy and Power Limited | 438 | 421 |
| Assets under construction held by Shetland Leasing and Property Development Limited | - | 2,651 |
| | <hr/> | <hr/> |

| Charity | Land and buildings £000 | Donated Assets £000 | District heating scheme infra- structure £000 | Total £000 |
|------------------------------|-------------------------------|---------------------------|--|---------------|
| Cost | | | | |
| At beginning and end of year | 16,275 | 9,159 | 17,137 | 42,571 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Depreciation | | | | |
| At beginning of year | 15,675 | 7,124 | 12,573 | 35,372 |
| Charge for year | 75 | 914 | 227 | 1,216 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At end of year | 15,750 | 8,038 | 12,800 | 36,588 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net book value | | | | |
| At 31 March 2015 | 525 | 1,121 | 4,337 | 5,983 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 March 2014 | 600 | 2,035 | 4,564 | 7,199 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

Notes (continued)

5 Managed funds

| Group and Charity | 2015 Market Value £000 | 2015 Cost £000 | 2014 Market Value £000 | 2014 Cost £000 |
|-------------------------------|---------------------------------|----------------------|---------------------------------|----------------------|
| Listed investments: | | | | |
| UK Government securities | 14,993 | 13,608 | 18,540 | 18,538 |
| Other UK fixed interest | 30,304 | 27,434 | 19,662 | 17,870 |
| Other Overseas fixed interest | 14,576 | 11,823 | 8,946 | 6,972 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 59,873 | 52,865 | 47,148 | 43,380 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| UK equities | 57,753 | 56,137 | 55,097 | 42,318 |
| Overseas equities | 58,878 | 33,296 | 55,559 | 36,200 |
| Property units | 27,457 | 22,680 | 25,135 | 22,675 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 144,088 | 112,113 | 135,791 | 101,193 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total investments | 203,961 | 164,978 | 182,939 | 144,573 |
| Cash on deposit and in hand | 3,050 | 3,137 | 5,990 | 5,916 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 207,011 | 168,115 | 188,929 | 150,489 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

| | 2015 £000 | 2014 £000 |
|--|--------------|--------------|
| <i>Reconciliation of market value of investments</i> | | |
| Market value at beginning of year | 188,929 | 187,923 |
| Investments purchased | 231,987 | 56,562 |
| Investments sold | (212,531) | (59,233) |
| Total realised gains on managed fund investments | 458 | 3,959 |
| Movement in investment managers' accrued income and expenses | (1,832) | (282) |
| | <hr/> | <hr/> |
| Market value at end of year | 207,011 | 188,929 |
| | <hr/> | <hr/> |

As at 31 March 2015, the Trust's funds other than programme-related investments are managed by Insight Investment Management, BlackRock Global Investors and Schroders Property Managers. The split of the portfolio between the investment managers is as follows:

| | 2015 Market value £000 | 2015 Cost £000 | 2014 Market value £000 | 2014 Cost £000 |
|-------------------------------|---------------------------------|----------------------|---------------------------------|----------------------|
| Insight Investment Management | 60,072 | 53,150 | 52,627 | 48,786 |
| BlackRock Global Investors | 116,642 | 89,443 | 110,663 | 78,525 |
| Schroders Property Managers | 30,297 | 25,522 | 25,639 | 23,178 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 207,011 | 168,115 | 188,929 | 150,489 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

Notes (continued)

6 Programme-related investments

| | Group | | Charity | |
|---------------------------|--------------|---|---|-----------------------|
| | 2015 £000 | 2014 £000 | 2015 £000 | 2014 £000 |
| Equity (below) | 4,467 | 4,489 | 22,480 | 22,449 |
| Loans (note 7) | 251 | 319 | 251 | 319 |
| | <u>4,718</u> | <u>4,808</u> | <u>22,731</u> | <u>22,768</u> |
| | | | | |
| Equity – Group | | | | |
| | | Shares in subsidiary undertakings £000 | Unlisted investments £000 | Total £000 |
| <i>Cost</i> | | | | |
| At beginning of year | | 4,932 | 626 | 5,558 |
| Additions | | 225 | - | 225 |
| | | <u>5,157</u> | <u>626</u> | <u>5,783</u> |
| Cost at end of year | | | | |
| <i>Provisions</i> | | | | |
| At beginning of year | | 443 | 626 | 1,069 |
| Provided in year | | 247 | - | 247 |
| | | <u>690</u> | <u>626</u> | <u>1,316</u> |
| Provisions at end of year | | | | |
| <i>Net book value</i> | | | | |
| At 31 March 2015 | | 4,467 | - | 4,467 |
| | | <u>4,489</u> | <u>-</u> | <u>4,489</u> |
| At 31 March 2014 | | | | |
| | | | | |
| Equity – Charity | | | Shares in subsidiary undertakings £000 | |
| <i>Cost</i> | | | | |
| At beginning of year | | | | 24,412 |
| Additions | | | | 225 |
| Disposals | | | | - |
| | | | | <u>24,637</u> |
| Cost at end of year | | | | |
| <i>Provisions</i> | | | | |
| At beginning of year | | | | 1,964 |
| Provided in year | | | | 193 |
| | | | | <u>2,157</u> |
| Provisions at end of year | | | | |
| <i>Net book value</i> | | | | |
| At 31 March 2015 | | | | 22,480 |
| | | | | <u>22,449</u> |
| At 31 March 2014 | | | | |

Notes (continued)

6 Programme-related investments (continued)

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

| | 2015 SLAP £000 | 2015 SHEAP £000 | 2015 SCT R £000 | 2015 Total £000 | 2014 Total £000 |
|---|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Turnover | 2,373 | 2,247 | - | 4,620 | 4,501 |
| Cost of sales | (155) | (1,118) | - | (1,273) | (1,260) |
| Gross profit | 2,218 | 1,129 | - | 3,347 | 3,241 |
| Administration expenses | (130) | (743) | (4) | (877) | (863) |
| Gift aid payment to Shetland Charitable Trust * | (2,174) | (359) | - | (2,533) | (2,555) |
| Revaluation of investment properties | (663) | - | - | (663) | (629) |
| Provision made against equity investment | - | - | (247) | (247) | (87) |
| Operating (loss)/profit | (749) | 27 | (251) | (973) | (893) |
| Profit on disposal of investment properties | 568 | - | - | 568 | (4) |
| Interest receivable and similar income | 24 | 3 | - | 27 | 23 |
| (Loss)/profit on ordinary activities before taxation | (157) | 30 | (251) | (378) | (874) |
| Tax on profit on ordinary activities | - | (20) | - | (20) | 21 |
| (Loss)/profit on ordinary activities after taxation being (loss)/profit for the financial year | (157) | 10 | (251) | (398) | (853) |

* The amount disclosed as gift aid receipts from subsidiary undertakings in the Trust's statement of financial activities is £2,482,000, which differs to the above, as this includes £53,000 in relation to SLAP gift aid which was over accrued in the prior year.

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

| | 2015 Total £000 | 2014 Total £000 |
|---|-----------------------|-----------------------|
| Cost of sales | 1,272 | 1,264 |
| Administration expenses | 877 | 863 |
| Investment property valuation deficit | 663 | 629 |
| Tax charge on profit on ordinary activities | 20 | - |
| Profit on disposal of investment properties | (568) | - |
| Interest receivable and similar income | (27) | - |
| | 2,237 | 2,756 |

Notes (continued)

6 Programme-related investments (continued)

Included within the companies' profit (loss) for the year is a total of £2,533,436 (2014: £2,554,542) payable 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:

| | 2015 SLAP £000 | 2015 SHEAP £000 | 2015 SCT R £000 | 2015 Total £000 | 2014 Total £000 |
|---------------------------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Tangible fixed assets | 19,052 | 438 | - | 19,490 | 21,251 |
| Investments | - | - | 4,467 | 4,467 | 4,489 |
| Current assets | 6,151 | 1,549 | 17 | 7,717 | 5,949 |
| Current liabilities | (2,610) | (987) | (5) | (3,602) | (3,406) |
| Creditors: amounts due after one year | (255) | - | - | (255) | (296) |
| Total net assets | 22,338 | 1,000 | 4,479 | 27,817 | 27,987 |
| Called up share capital | 17,000 | 1,000 | 6,637 | 24,637 | 24,412 |
| Profit and loss account | 5,208 | - | (2,158) | 3,050 | (1,792) |
| Revaluation reserve | 130 | - | - | 130 | 5,367 |
| Total reserves | 22,338 | 1,000 | 4,479 | 27,817 | 27,987 |

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

7 Programme-related investments – Loans

| Group and charity | 2015 £000 | 2014 £000 |
|-----------------------------------|--------------|--------------|
| Agricultural Ten Year Loan Scheme | 303 | 372 |
| Provisions for doubtful debts | (52) | (53) |
| | 251 | 319 |

Notes (continued)

8 Debtors

| | Group | | Charity | |
|--|--------------|--------------|--------------|--------------|
| | 2015 | 2014 | 2015 | 2014 |
| | £000 | £000 | £000 | £000 |
| Trade debtors | 706 | 730 | 10 | 2 |
| Amounts owing from subsidiary undertakings | - | - | 2,168 | 2,027 |
| Prepayments and accrued income | 2,344 | 1,300 | 734 | 867 |
| Other debtors: | | | | |
| VAT recoverable | - | 1 | - | - |
| Programme-related loans | 313 | 381 | 313 | 381 |
| | <u>3,363</u> | <u>2,412</u> | <u>3,225</u> | <u>3,277</u> |

9 Creditors: amounts falling due within one year

| | Group | | Charity | |
|--|--------------|--------------|------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| | £000 | £000 | £000 | £000 |
| Trade creditors | 249 | 1,036 | 109 | 51 |
| Rents in advance | 78 | 80 | - | - |
| Corporation tax | 73 | - | - | - |
| Other tax and social security | 15 | 40 | 15 | 21 |
| Other creditors and accruals | 1,241 | 449 | 143 | 101 |
| Amounts owing to subsidiary undertakings | - | - | 191 | - |
| | <u>1,656</u> | <u>1,605</u> | <u>458</u> | <u>173</u> |

10 Provisions for liabilities and charges

| Group | Deferred taxation |
|-------------------------------|-------------------|
| | £000 |
| At beginning of year | 275 |
| Credit for the year | (52) |
| Effect of increased tax rates | - |
| At end of year | <u>223</u> |

The deferred tax liability arising within the Trust's subsidiary companies at the year end of £223,000 (2014: £275,000) is analysed as follows:

| | 2015 | 2014 |
|------------------------------------|------------|------------|
| | £000 | £000 |
| Accelerated capital allowances | 223 | 149 |
| Other timing differences: gift aid | - | 126 |
| | <u>223</u> | <u>275</u> |

Notes (continued)

11 Expendable endowment

| | Group Total £000 | Charity Total £000 |
|----------------------|------------------------|--------------------------|
| At beginning of year | 231,588 | 231,588 |
| Outgoing resources | (1,216) | (1,216) |
| Gains in the year | 20,214 | 20,214 |
| | <hr/> | <hr/> |
| At end of year | 250,586 | 250,586 |
| | <hr/> <hr/> | <hr/> <hr/> |

12 Unrestricted income funds

| Group | General funds £000 | Trading funds £000 | Pension reserve £000 | Revaluation reserve £000 | Total unrestricted income funds £000 |
|-----------------------|--------------------------|--------------------------|----------------------------|--------------------------------|---|
| At beginning of year | (6,258) | 5,361 | (1,795) | 146 | (2,546) |
| Net movement in funds | (2,148) | (347) | (80) | (17) | (2,592) |
| Actuarial gains | - | - | 250 | - | 250 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At end of year | (8,406) | 5,014 | (1,625) | 129 | (4,888) |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

| Charity | General funds £000 | Pension reserve £000 | Total unrestricted income funds £000 |
|---|--------------------------|----------------------------|---|
| At beginning of year | (6,257) | (1,795) | (8,052) |
| Net incoming resources before other recognised gains and losses | (2,342) | (80) | (2,422) |
| Actuarial gains | - | 250 | 250 |
| | <hr/> | <hr/> | <hr/> |
| At end of year | (8,599) | (1,625) | (10,224) |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

The group trading funds balance now represents the accumulated surplus on the Trust's subsidiary company undertakings, while the group and charity general fund balances have been brought into alignment.

Notes (continued)

13 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 2014 and was updated for FRS 17 purposes to 31 March 2015 by a qualified independent actuary.

| | 2015 £000 | 2014 £000 |
|---|----------------------------|--------------|
| Present value of funded defined benefit obligations | (4,350) | (3,534) |
| Fair value of plan assets | 2,867 | 1,873 |
| | (1,483) | (1,661) |
| Present value of unfunded defined benefit obligations | (142) | (134) |
| | (1,625) | (1,795) |
| Net liability | (1,625) | (1,795) |

Movements in present value of defined benefit obligation:

| | 2015 £000 | 2014 £000 |
|--------------------------|----------------------------|--------------|
| At 1 April | 3,668 | 3,294 |
| Current service cost | 104 | 102 |
| Interest cost | 156 | 150 |
| Actuarial losses | 729 | 144 |
| Losses on curtailments | - | 63 |
| Contributions by members | 25 | 28 |
| Benefits paid | (190) | (113) |
| At 31 March | 4,492 | 3,668 |

Movements in fair value of plan assets:

| | 2015 £000 | 2014 £000 |
|--------------------------------|----------------------------|--------------|
| At 1 April | 1,873 | 1,701 |
| Expected return on plan assets | 113 | 91 |
| Actuarial gains | 979 | 27 |
| Contributions by employer | 67 | 139 |
| Contributions by members | 25 | 28 |
| Benefits paid | (190) | (113) |
| At 31 March | 2,867 | 1,873 |

Notes (continued)

13 Pension scheme (continued)

Expenditure recognised in the statement of financial activities:

| | 2015 | 2014 |
|--|-------------|-------|
| | £000 | £000 |
| Current service cost | (104) | (102) |
| Interest on defined benefit pension plan obligation | (156) | (150) |
| Expected return on defined benefit pension plan assets | 113 | 91 |
| Past service cost | - | (63) |
| | <hr/> | <hr/> |
| Total | (147) | (224) |
| | <hr/> | <hr/> |

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

| | 2015 | 2014 |
|---------------------------------------|-------------|-------|
| | £000 | £000 |
| Charitable activities – support costs | (147) | (224) |
| | <hr/> | <hr/> |

The total amount recognised in the other recognised gains and losses section of the statement of financial activities is a gain of £250,000 (2014: loss £117,000).

The cumulative actuarial gains and losses are as follows:

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---------------------------------------|-------------|---------|---------|---------|-------|
| | £000 | £000 | £000 | £000 | £000 |
| Actuarial gains/(losses) | 250 | (117) | (292) | (94) | 260 |
| Cumulative actuarial gains and losses | (1,227) | (1,477) | (1,360) | (1,068) | (974) |

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

| | 2015 | 2014 |
|------------------------------|-------------------|------------|
| | Fair value | Fair value |
| | £000 | £000 |
| Equities | 2,293 | 1,498 |
| Corporate bonds | 287 | 169 |
| Property | 287 | 131 |
| Cash | - | 75 |
| | <hr/> | <hr/> |
| | 2,867 | 1,873 |
| | <hr/> | <hr/> |
| Actual return on plan assets | 202 | 118 |
| | <hr/> | <hr/> |

Notes (continued)

13 Pension scheme (continued)

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:

| | 2015 % | 2014 % |
|--|-----------|-----------|
| Discount rate | 3.2 | 4.3 |
| Expected rate of return on plan assets | 3.2 | 6.2 |
| Future salary increases | 4.3 | 5.1 |
| Inflation / pension increase rate | 2.4 | 2.8 |

In valuing the liabilities of the pension fund at 31 March 2015, 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: 22.8 years (male), 23.8 years (female).

Future retiree upon reaching 65: 24.9 years (male), 26.7 years (female).

History of plans

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

Balance sheet

| | 2015 £000 | 2014 £000 | 2013 £000 | 2012 £000 | 2011 £000 |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Present value of scheme liabilities | (4,492) | (3,668) | (3,294) | (2,670) | (2,556) |
| Fair value of scheme assets | 2,867 | 1,873 | 1,701 | 1,427 | 1,443 |
| Deficit | (1,625) | (1,795) | (1,593) | (1,243) | (1,113) |

Experience adjustments

| | 2015 £000/% | 2014 £000/% | 2013 £000/% | 2012 £000/% | 2011 £000/% |
|--|----------------|----------------|----------------|----------------|----------------|
| Experience adjustments on scheme liabilities/as a percentage of scheme liabilities | (274)/(6.1) | -/- | (47)/(1.4) | 165/6.2 | (7)/(0.3) |
| Experience adjustments on scheme assets/as a percentage of scheme assets | 979/34.1 | 27/1.4 | 134/7.9 | (109)/(7.6) | (12)/(0.8) |

The Trust expects to contribute approximately £69,000 to its defined benefit plans in the next financial year to 31 March 2016.

14 Related parties

In the year to 31 March 2015 the SCT Renewables Limited invested £225,000 (2014: £900,000.) in Viking Energy Shetland LLP in which SCT Renewables Limited is a 90% partner.

In the year to 31 March 2015 Shetland Leasing and Property Developments Limited charged Viking Energy Shetland LLP £10,320 in relation to office rental. The transactions were carried out at normal market rates. There was no balance due at 31 March 2015.

In the normal course of business, some of the Trustees are appointed as directors or as Trustees of other organisations and charitable bodies within the Shetland Islands, including those which the Trust may from time to time transact with, either through routine business or in the provision of charitable grants. These relationships are not considered to be related party transactions as in no instance is the level of mutual trustees such as to provide direct or indirect control, or to place the Trustees in a position where they are able to provide influence over the financial and operating policies of the other organisations.