

Chief Executive: Dr Ann Black

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Edna Flaws
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Our Ref: EM/TA48

Date: 5 September 2017

Dear Sir/Madam

**Annual General Meeting of Shetland Charitable Trust
The Bowlers Bar, Clickimin Leisure Complex, Lerwick, Shetland
Thursday 14 September 2017 at 6.15pm**

Apologies for absences should be notified to Lynne Geddes on 01595 744592.

Yours faithfully

(signed) Dr Ann Black
Chief Executive

AGENDA

1. Welcome and Introduction.
2. Apologies.
3. Confirm minutes of meeting held on 15 September 2016.
4. Trustees Report and Financial Statements to 31 March 2017.
5. AGM 2018: Date to be confirmed.



MINUTES

**Shetland Charitable Trust Annual General Meeting
Bowlers Bar, Clickimin Leisure Complex, Lerwick
Thursday 15 September 2016 at 6.30pm**

Present:

A Cooper	A Duncan
B Hunter	K Massey
A Manson	T Macintyre
I Napier	J Smith
J Wills	

Apologies:

M Bell	R Henderson
P Malcolmson	D Ratter
A Westlake	

In Attendance (Officers):

A Black, Chief Executive - SCT
R Mainland, Executive Business Manager - SCT
E Flaws, Administration Manager – SCT
K Mouat, Administration Assistant - SCT
L Geddes, Committee Officer - SIC

Also:

P Riddell, Platform Shetland

Chair:

Mr Hunter, Chair of the Trust, presided.

Welcome and Introductions

The Chair welcomed those present to the meeting, and thanked Trustees and staff for their work over the past year.

He advised members of the public present that should they have any particular issues they would like to raise; staff would take their contact details and arrange a meeting with them.

Confirm Minutes of Meeting held on 10 September 2015

The minutes of the above meeting were confirmed on the motion of Mr Smith, seconded by Dr Napier.

It was noted that there was a typographical error, and that the reference to the date of the AGM that required to be confirmed was 2016, not 2015.

Trustees Report and Financial Statements to 31 March 2016

The Chair advised that he was pleased to say that the Trust had managed its budgets well over the year, and had succeeded in reducing spending to the planned levels. The Trust would seek to follow its disbursement plan through to 2020 to ensure that it remained sustainable in the future.

He went on to say that it had been a difficult year for everyone holding investments on the world's financial markets. The value of investments had fallen to £200million but had recovered well since March, sitting at £215million at the end of July. It was important to remember that the Trust was a long-term investor, and had done well from its investments over the years.

The Trust's three advisory committees had had a busy year. The Investment Advisory Committee had reviewed the Trust's Investment Strategy and the recommendations had been approved by Trustees in February. New Fund Managers were selected in June, and the new strategy would be in place at the end of the month.

The General Purposes Advisory Committee had reviewed the Trust's policy on funded bodies holding reserves, giving them more flexibility in managing their budgets.

The Audit and Governance Advisory Committee had had a very busy year reviewing the Trust's governance arrangements. Following an independent review, Trustees approved the recommendations at the May meeting and it was aimed to have a reorganisation scheme submitted to the Office of the Scottish Charity Regulator very soon.

He concluded by saying that he would like to take the opportunity to thank all Trust staff for their hard work over the past year, and that he was very grateful for the help and support received from all Trustees, especially the Chairs of the Advisory Committees.

Trustees approved the annual report and financial statements for the year to 31 March 2016 on the motion of Mr Smith, seconded by Ms Manson.

AGM 2017: Date to be confirmed

Trustees noted that the date of the next Annual General Meeting was still to be confirmed.

The Trust AGM concluded at 6.35pm.

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CHAIR

Shetland Charitable Trust

Trustees' report and consolidated
financial statements

Charity number SC027025

31 March 2017

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Chair's introduction

We have now completed the fourth year of the newly constituted Shetland Charitable Trust. One Trustee left the Trust during the year and I would like to thank him for his work during his time on the Board.

The Trust's three Advisory Committees met regularly throughout the year. The Investment Advisory Committee oversaw the implementation of the Trust's new Investment Strategy. The strategy introduces a diversified growth manager and an active equity manager where 10% and 37.5% respectively, of the Trust's reserves were invested. The remaining assets continue to be invested in passive equities (37.5%) and property (15%). At their June meeting Trustees approved the appointment of two fund managers for the new investment mandates. Insight Investment Management were appointed as the diversified growth manager and Baillie Gifford & Co. as the active equity manager. The funds were transferred to the new managers on 30 September 2016.

The General Purposes Advisory Committee reviewed the Trust's public relations and commissioned a short film and information leaflet highlighting the work of the Trust and the impact that the funded organisations have on the quality of life in Shetland. The Committee received presentations from the four largest funded organisations and monitored the service performance of all the Trust's grant recipients.

Finally, the Audit and Governance Advisory Committee, implemented the changes in governance arrangements, approved by the Trustees in May 2016. The formal reorganisation scheme was submitted to OSCR in December 2016, and was approved by OSCR on 5 April 2017. Trustees effected the changes at their meeting on 20 April 2017. This will result in the number of Selected Trustees increasing from eight to eleven and the number of Councillor Trustees on the Trust Board reducing from seven to four should Shetland Islands Council choose to continue to appoint Trustees.

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 Advisory Committees.

R W Hunter
Chair

14 September 2017

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

Selected

R W Hunter, Chair

A B Cooper

T Macintyre

P Malcolmson

K I Massey

I R Napier

J L B Smith

G Hay (Appointed 4 June 2017)

W A Ratter (Appointed 4 June 2017)

M I Roberts (Appointed 4 June 2017)

Appointed by Shetland Islands Council

J W G Wills, Vice Chair (Resigned 20 March 2017)

M J Bell (Retired 4 June 2017)

A G L Duncan (Retired 4 June 2017)

R S Henderson (Retired 4 June 2017)

A I Manson (Retired 4 June 2017)

W A Ratter (Retired 4 June 2017)

A J Westlake (Retired 4 June 2017)

Chief Executive Dr Ann Black

Bankers Bank of Scotland
117 Commercial Street
Lerwick
ZE1 0DL

Auditor KPMG LLP
319 St Vincent Street
Glasgow
G2 5AS

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)

Investment Managers	Baillie Gifford & Co Calton Square 1 Greenside Row Edinburgh EH1 3AN
Custodian	The Northern Trust Company 50 Bank Street Canary Wharf London E14 5NT
Investment Monitor	The Northern Trust Company 50 Bank Street Canary Wharf London E14 5NT

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. There was one vacant selected Trustee and one vacant Councillor Trustee at the year-end. From 4 June 2017, following the review of governance, the Trust will be made up of eleven appointed Trustees recommended by a selection panel and appointed by the Trustees, and four Councillor Trustees 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 four 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. 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

Shetland Heat Energy and Power Limited (SHEAP) James Armitage
Allan Wishart
Simon Collins
Derek Leask
Garry Tait

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 15 September 2016. 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	Green	Investment Advisory Committee
3	Loss of Charitable Status	Amber	Audit & Governance Advisory Committee
4	Poor Reputation	Red	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

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 final decision to support a project or activity lies with the Trustees. Any grant recipient is subject to "performance monitoring", which is carried out by Trust staff and reported to Trustees.

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

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.

In 2015, Trustees approved a new Financial Plan to run from 1 April 2016 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 budget of £9.5m has been set for the year to 31 March 2018 in line with the new Financial Plan.

Trustees' Report (continued)

Section 3: Objectives and Activities (continued)

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 2017, the Trust provided grant assistance to the following organisations towards the cost of providing a range of social, leisure, cultural, heritage and environmental activities:

- Citizens Advice Bureau
- COPE Ltd
- Disability Shetland
- Festivals: Folk Festival
- Royal Voluntary Service
- Shetland Link-up
- Shetland Amenity Trust
- Shetland Arts Development Agency
- Shetland Befriending Scheme
- Shetland Churches Council Trust
- Festivals: Fiddle and Accordion
- Voluntary Action Shetland
- Shetland Recreational 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 2015, 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:

- Rural Care Model
- Arts Grant Aid Scheme
- Senior Citizen's Clubs
- Bus Service for the Elderly and Disabled
- Local Charitable Organisations

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

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 2016/17. 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

	2016/17 budget £	Actual spend to 31 March 2017 £	2016 spend £
<u>Trusts over £0.5m</u>			
Shetland Amenity Trust	1,281,159	1,281,159	1,052,728
Shetland Arts Development Agency	694,878	694,878	696,038
Shetland Recreational Trust	3,303,363	3,303,363	2,518,000
<u>Other Charitable Organisations</u>			
Disability Shetland Recreation Club	12,641	12,641	12,641
The Swan Trust	53,738	53,738	44,650
Shetland Churches Council Trust	40,503	40,503	54,004
Shetland Befriending Scheme	54,418	54,418	54,418
Citizens Advice Bureau	132,265	132,265	132,265
COPE Limited	154,967	154,967	154,967
Shetland Link Up	47,994	47,994	47,994
Voluntary Action Shetland	144,361	144,361	126,461
Festival Grants	22,500	22,500	30,000
Local Charitable Organisations	14,000	11,552	11,552
Royal Voluntary Service	46,985	46,985	46,985
Sub Total Organisations	6,003,772	6,001,324	4,982,703

Trustees' Report *(continued)*

Section 4: Achievements and Performance *(continued)*

	2016/17 budget £	Actual spend to 31 March 2017 £	2016 spend £
<u>Schemes</u>			
Community Support Grants	-	-	54,144
Arts Grant Scheme	30,000	10,586	23,241
Senior Citizen's Clubs	15,000	12,598	12,336
Support to Rural Care Model	2,302,172	2,302,172	2,407,500
Buses for Elderly and Disabled	48,106	48,106	49,980
Sub Total Schemes	2,395,278	2,373,462	2,547,201
<u>Direct Schemes</u>			
Planned Maintenance	-	-	1,243,680
Sub Total Direct Schemes	-	-	1,243,680
Surplus Grants Refunded	-	(4,597)	(27,428)
Sub-total charitable expenditure	8,399,050	8,370,189	8,746,156
Trust Administration, including governance costs	699,277	647,268	575,194
Total	9,098,327	9,017,457	9,321,350

Total charitable expenditure and administration costs are shown before adjustment for pension adjustments under FRS 102 totalling £58,000.

The Planned Maintenance Scheme ceased at 31 March 2016, with grants for maintenance from 1 April 2016 being included in the revenue grants awarded to organisations.

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 £35.0 million was generated in 2016/17. This includes growth in value of the investments as well as dividend income received. In 2016/17, around £3.1 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 2017) of the Trust's reserves that are invested to generate income (i.e. not the 'Donated Properties') is around £259 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

2016/17 was a good year for investment returns, achieving total returns of £39.3 million (about 19.5%).

Stock Exchanges

As at 31 March 2017, four fund managers managed the Trust's Stock Exchanges portfolio. BlackRock Global Investors manage around £86.2 million invested in passive equities (shares), Baillie Gifford & Co. manage around £87.5 million invested in active equities (shares), Insight Investment manage around £22.7 million in a diversified growth fund, and Schroders Property Managers manage around £34.8 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.

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 £17.6 million and it generated rental income of over £2.3 million in 2016/17. The Board of Directors resolved to make a gift aid payment of £2.0 million to the Trust in the financial year 2016/17. 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 1200 customers receiving heat. The Board of Directors resolved to make a gift aid payment of £0.2 million to the Trust in the financial year 2016/17.

SCT Renewables Limited is a 100% owned subsidiary of the Trust. The Trust has invested £9.3 million at 31 March 2017. 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 during the year.

After considering appropriate advice, Trustees have adopted a revised investment strategy based on a 75% in shares (37.5% actively managed and 37.5% managed passively), 15% in property and 10% in a diversified portfolio of assets. The new investment strategy was implemented in 2016/17 and seeks to maintain diversification whilst increasing average returns in the long term. Trustees have considered the legal, financial and ethical aspects of various possible socially responsible investment mechanisms.

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.

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 undertook a review of its Governance by 2017 as was agreed when the Trust was reconstituted. This review has progressed during the year and the recommendations have been approved Trustees and OSCR. The governance changes will be implemented during 2017/18.

R W Hunter
Chair

2017

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

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements for each financial year which show a true and fair view of the state of affairs of the group and the charity and of the group's and the charity's excess of expenditure over income for that period. The trustees have elected to prepare the financial statements in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 the recommendations of 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;
- 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 and the rules 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 charity at that time, and to enable the trustees to ensure that, where any statements of accounts are prepared by them under the Charities and Trustee Investment (Scotland) Act 2005, those statements of accounts comply with the requirements of regulations under that Act. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the 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

319 St Vincent Street
Glasgow
G2 5AS
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 2017 set out on pages 13 to 36. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 of the charity's affairs as at 31 March 2017 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; 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

2017

Consolidated statement of financial activities

for the year ended 31 March 2017

	Note	Unrestricted funds		2017 Total £000	2016 Total £000
		General funds £000	Expendable endowment £000		
Income and endowments from					
Other trading activities	6	4,685	-	4,685	4,724
Investments		3,499	-	3,499	4,304
Rental income		907	-	907	956
Other income		2	-	2	4
Total income and endowments		9,093	-	9,093	9,988
Expenditure on					
Expenditure on raising funds	6	(2,809)	-	(2,809)	(2,344)
Investment Management		(745)	-	(745)	(520)
Provision made against equity investment	6	(89)	-	(89)	(127)
Charitable activities	2	(9,075)	(284)	(9,359)	(10,627)
Total expenditure		(12,718)	(284)	(13,002)	(13,618)
Net gains/(losses) on investments		-	35,516	35,516	(4,555)
Net income/(expenditure)		(3,625)	35,232	31,005	(8,185)
Other recognised gains and losses					
Actuarial (losses)/gains in defined benefit pension scheme	17	(602)	-	(602)	435
Net movement in funds		(4,227)	35,232	31,005	(7,750)
Fund balances brought forward	13, 12	(6,866)	244,814	237,948	245,698
Fund balances carried forward		(11,093)	280,046	268,953	237,948

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 18 to 36 form a part of the financial statements.

Trust statement of financial activities

for the year ended 31 March 2017

	Note	Unrestricted funds		2017	2016
		General funds £000	Expendable endowment £000	Total £000	Total £000
Income and endowments from					
Income from investments		3,499	-	3,499	4,304
Other trading activities (Gift Aid receipts from subsidiary undertakings)	6	2,186	-	2,186	2,581
Rental income		907	-	907	956
Other income		2	-	2	2
Total income and endowments		6,594	-	6,594	7,843
Expenditure on:					
Expenditure on raising funds		(745)	-	(745)	(520)
Provision made against equity investment	6	(94)	-	(94)	(133)
Charitable activities	2	(9,075)	(284)	(9,359)	(10,627)
Total expenditure		(9,914)	(284)	(10,198)	(11,280)
Gains/(Losses) on investment assets	12	-	35,516	35,516	(4,555)
Net income/(expenditure)		(3,320)	35,232	31,912	(7,992)
Other recognised (losses)/gains					
Actuarial losses in defined benefit pension scheme	17	(602)	-	(602)	435
Net movement in funds		(3,922)	35,232	31,310	(7,557)
Total funds brought forward		(12,009)	244,814	232,805	240,362
Fund balances carried forward		(15,931)	280,046	264,115	232,805

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 18 to 36 form a part of the financial statements.

Consolidated balance sheet

as at 31 March 2017

	Note	2017 £000	2017 £000	2016 £000	2016 £000
Fixed assets					
Tangible assets	4		22,789		23,585
Investments	5	231,189		199,681	
Programme-related investments	6, 7	7,108		6,791	
			<u>238,297</u>		<u>206,472</u>
Total fixed assets			<u>261,086</u>		<u>230,057</u>
Current assets					
Stocks		41		28	
Debtors	8	1,102		1,621	
Cash at bank and in hand	9	10,302		9,477	
			<u>11,445</u>	<u>11,126</u>	
Total current assets					
Creditors: amounts falling due within one year	10	<u>(1,637)</u>		<u>(1,790)</u>	
Net current assets			<u>9,808</u>		<u>9,336</u>
Total assets less current liabilities			<u>270,894</u>		<u>239,393</u>
Provisions for liabilities and charges	11		(2)		(166)
Net assets excluding pension liability			<u>270,892</u>		<u>239,227</u>
Pension liability	17		(1,939)		(1,279)
Net assets including pension liability			<u>268,953</u>		<u>237,948</u>
Represented by:					
Expendable endowment	12		280,046		244,814
Unrestricted income funds:	13				
General funds			(13,992)		(10,730)
Trading funds			4,427		5,014
Revaluation reserve			411		129
			<u>(9,154)</u>		<u>(5,587)</u>
Unrestricted income funds excluding pension reserve			(9,154)		(5,587)
Pension reserve	13		(1,939)		(1,279)
Total unrestricted income funds	13		<u>(11,093)</u>		<u>(6,866)</u>
Total group funds			<u>268,953</u>		<u>237,948</u>

These financial statements were approved by the trustees on 14 September 2017 and were signed on their behalf by:

R W Hunter
Chair

K I Massey
Trustee

The notes on pages 18 to 36 form a part of these financial statements.

Trust balance sheet
as at 31 March 2017

	<i>Note</i>	2017 £000	2017 £000	2016 £000	2016 £000
Fixed assets					
Tangible assets	4		493		4,766
Investments	4,5	231,189		199,681	
Programme-related investments	6, 7	27,599		23,298	
		<hr/>	258,788	<hr/>	222,979
Total fixed assets			<hr/> 259,281 <hr/>		<hr/> 227,745 <hr/>
Current assets					
Debtors	8	2,411		3,335	
Cash at bank and in hand		4,617		3,525	
		<hr/>		<hr/>	
Total current assets		7,028		6,860	
Creditors: amounts falling due within one year	10	(255)		(521)	
		<hr/>		<hr/>	
Net current assets			6,773		6,339
			<hr/>		<hr/>
Net assets excluding pension liability			266,054		234,084
Pension liability	17		(1,939)		(1,279)
			<hr/>		<hr/>
Net assets including pension liability			264,115		232,805
			<hr/> <hr/>		<hr/> <hr/>
Represented by:					
Expendable endowment	12		280,046		244,814
Unrestricted income funds:					
General funds	13		(13,992)		(10,730)
Pension reserve	13		(1,939)		(1,279)
			<hr/>		<hr/>
Total unrestricted income funds	13		(15,931)		(12,009)
			<hr/>		<hr/>
Total Trust funds			264,115		232,805
			<hr/> <hr/>		<hr/> <hr/>

These financial statements were approved by the trustees on 14 September 2017 and were signed on their behalf by:

R W Hunter
Chair

K I Massey
Trustee

The notes on pages 18 to 36 form a part of these financial statements.

Consolidated cash flow statement

for the year ended 31 March 2017

Cash flows from operating activities	<i>Note</i>	2017	2016
		£000	£000
Net outgoing resources before other recognised gains and losses		(3,909)	(3,630)
<i>Adjustments for:</i>			
Loss on sale of fixed assets		85	258
Investment income and interest receivable		(3,499)	(4,304)
Depreciation and impairment of tangible fixed assets	4	1,004	2,009
Revaluation of investment properties	4	-	(281)
Movement in pension liability, excluding actuarial gains and losses	13	58	89
Realised (losses)/gains on managed fund investments	5	(9,749)	6,358
Gains/(losses) on investment assets		35,516	(4,555)
Provisions made on equity investments	6	89	127
Movement in agricultural loans	7	44	50
(Increase)/Decrease in stock		(13)	10
Decrease in debtors	8	519	1,742
(Decrease)/Increase in creditors	10	(153)	134
Decrease in provisions	11	(164)	(57)
		<hr/>	<hr/>
Net cash flow from operating activities		19,818	(2,050)
		<hr/>	<hr/>
Cash flow from investment activities			
Purchase of managed funds investments	5	(107,856)	(12,237)
Purchase of tangible fixed assets	4	(293)	(99)
Purchase of shares within joint venture	6	(450)	(2,250)
Sale of managed funds investments	5	84,317	11,529
Net movement in cash flows attributable to managed fund investments	5	1,790	1,680
		<hr/>	<hr/>
Net cash flow from investing activities		(22,492)	(1,377)
		<hr/>	<hr/>
Cash flow from financing activities			
Investment income and interest received		3,499	4,304
		<hr/>	<hr/>
Net cash flow from financing activities		3,499	4,304
		<hr/>	<hr/>
Net increase in cash and cash equivalents		825	877
Cash and cash equivalents at 1 April	9	9,477	8,600
		<hr/>	<hr/>
Cash and cash equivalents at 31 March	9	10,302	9,477
		<hr/> <hr/>	<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.

1.1 *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 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 preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102).

Shetland Charitable Trust has three 100% owned subsidiary companies which are trading. The Trust and its subsidiaries are considered qualifying entities under FRS 102 paragraphs 1.8 to 1.12. The following exemptions are available:

- No separate Trust Cash Flow Statement with related notes is included;
- Key Management Personnel compensation has not been included a second time;
- The disclosures required by FRS 102.11 Basic Financial Instruments.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the trustees, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 19.

1.2 *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 102, 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.

1.3 *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.

1.4 *Income and endowments from other trading activities and rental income*

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.

Notes (continued)

1 Accounting policies (continued)

1.4 Income and endowments from other trading activities and rental income (continued)

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.

Investments

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

1.5 Expenditure

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.

1.6 Basic financial instruments

Trade and other debtors/creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Investments in preference and ordinary shares

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition investments that can be measured reliably are measured at fair value with changes recognition in profit or loss. Other investments are measured at cost less impairment in profit or loss

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Trust's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

1.7 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.

Notes (continued)

1 Accounting policies (continued)

1.8 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.

1.9 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

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. The district heating scheme infrastructure was transferred to Shetland Heat Energy and Power Limited on 30 September 2016 and depreciation is charged to their profit and loss account using the same depreciation method. 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.

1.10 Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are recognised initially at cost.

Subsequent to initial recognition:

- Investment properties whose fair value can be measured reliably without undue cost or effort are held at fair value. Any gains or losses arising from changes in the fair value are recognised in profit or loss in the period that they arise; and
- No depreciation is provided in respect of investment properties applying the fair value model, except for a charge in relation to Scatsta Airport. The directors have assumed that this property will have a nil residual value, due to its specialised nature, when the current lease expires and the value is therefore being written down in line with that lease.

Investment property is carried at fair value. Revaluation surpluses and deficits are recognised in the statement of financial activities. Deferred taxation is provided on these gains.

Notes (continued)

1 Accounting policies (continued)

1.11 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.

Tax on the profit or loss of subsidiaries for the year comprises current and deferred tax. Tax is recognised in the statement of financial activities except to the extent that it relates to items recognised directly in equity or other recognised gains and losses, in which case it is recognised directly in equity or other recognised gains and losses.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date, except when the investment property has a limited useful life and the objective of the company's business model is to consume substantially all of the value through use. In the latter case the tax rate that is expected to apply to the reversal of the related difference is used. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

1.12 Employee benefits

Defined benefit plans

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.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Trust's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Trust determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability/(asset) taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the Trust's obligations. A valuation is performed annually by a qualified actuary using the projected unit credit method. The Trust recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in profit or loss.

Remeasurement of the net defined benefit liability/asset is recognised in other recognised gains and losses in the period in which it occurs.

Notes (continued)

1 Accounting policies (continued)

1.13 Stock

Stocks are valued at the lower of cost and estimated selling price less costs to complete and sell.

1.14 Cash and cash equivalents

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.

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

Charitable activities

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

	2017 £000	2016 £000
General funds		
Payments to charitable organisations	6,001	4,983
Schemes	2,374	2,547
Direct schemes	-	1,244
Charitable grants repaid	(5)	(28)
	<hr/>	<hr/>
Total charitable grants	8,370	8,746
Support costs, including governance costs (below)	647	575
Pension adjustments	58	89
	<hr/>	<hr/>
Total charitable expenditure – general funds	9,075	9,410
	<hr/>	<hr/>
Expendable endowment		
Depreciation	284	1,217
	<hr/>	<hr/>
Total resources expended on charitable activities	9,359	10,627
	<hr/> <hr/>	<hr/> <hr/>

Some payment from the Arts Grant Scheme are 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 £523,000 (2016: £471,000) principally represent administration expenses and are all deemed to be attributable to the group's charitable activities. Included within administration expenses is £362,150 (2016: £492,000) in respect of staff costs (see note 3), of which £124,578 (2016: £252,704) was charged to subsidiaries.

Governance costs

Governance costs totalling £124,000 (2016: £105,000) comprise the costs associated with the Trust's compliance with charity regulation and good practice. They include £29,000 (2016: £29,000) 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 (note 2) of £26,000 (2016: £26,000).

Notes *(continued)*

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

	Group and charity	
	Total 2017 £000	Total 2016 £000
Allocation of staff and support costs, including Trustees' allowance and expenses (see note 3)	29	29
Other costs	69	50
External auditor's remuneration:		
Audit of these financial statements	26	26
Audit of subsidiary undertakings (excluded from charitable governance costs)	17	18
Other services: taxation in relation to subsidiary undertakings	9	12
Total governance costs	124	105
	124	105

3 Staff numbers and costs

The group had an average of 13 employees during the year (2016: 13). The aggregate payroll cost of these employees was as follows:

	2017 £000	2016 £000
Wages and salaries	467	413
Social security costs	48	33
Pension costs	60	65
	575	511
	575	511

Employee costs totalling £124,578 (2016: £252,704) were charged by Shetland Charitable Trust in respect of work performed by its subsidiary companies. Seven 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.

One employee (2016: one) received emoluments totalling between £80,000 and £89,999. Retirement benefits are accruing to this member of staff under a defined benefit pension scheme; contributions in 2016/17 totalled £13,779. No other employees received emoluments totalling in excess of £60,000 in either the current or previous financial year.

Included above are the emoluments paid to key management personnel comprising 5 employees totalling £315,509 (2016: 5 employees totalling £225,855) including £29,121 (2016: £17,199) in social security costs and £35,008 (2016: £29,326) in pension contributions.

Expenses totalling £4,095 (2016: £4,296) were reimbursed or paid on behalf of 4 trustees (2016: 5 trustees) during the year.

Notes (continued)

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
<i>Cost or valuation</i>						
At beginning of year	25,434	17,137	18,703	865	2,644	64,783
Additions	-	-	102	-	191	293
Disposals	-	-	(85)	-	-	(85)
At end of year	25,434	17,137	18,720	865	2,835	64,991
<i>Depreciation</i>						
At beginning of year	24,777	13,028	663	524	2,206	41,198
Charge for year	164	234	462	33	111	1,004
At end of year	24,941	13,262	1,125	557	2,317	42,202
<i>Net book value</i>						
At 31 March 2017	493	3,875	17,595	308	518	22,789
At 31 March 2016	657	4,109	18,040	341	438	23,585

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.

Investment properties are based on a valuation by an external, independent valuer, having an appropriate recognised professional qualification and recent experience in the location and class of property being valued. The last independent valuation being as at 31 March 2017. The Directors review the valuations annually.

The valuations, which are provided by a qualified chartered surveyor, are prepared by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation.

Any gain or loss arising from a change in fair value is recognised in the statement of financial activities. Rental income from investment property is accounted for as described in the income and endowments from other trading activities accounting policy.

The historical cost net book value of investment properties, gross of impairment, at 31 March 2017 is £27,883,000 (net of impairment: £25,430,000).

The net book value of other tangible fixed assets relates to plant and machinery, fixtures and fittings held by Shetland Heat Energy and Power Limited.

Notes (continued)

4 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 and end of year	16,275	9,159	17,137	42,571
Disposals (see note 4)	-	-	(17,137)	(17,137)
At end of year	16,275	9,159	-	25,434
<i>Depreciation</i>				
At beginning of year	15,825	8,952	13,028	37,805
Charge for year	75	89	120	284
Disposals	-	-	(13,148)	(13,148)
At end of year	15,900	9,041	-	24,941
<i>Net book value</i>				
At 31 March 2017	375	118	-	493
At 31 March 2016	450	207	4,109	4,766

5 Managed funds

Group and Charity	2017 Market Value £000	2017 Cost £000	2016 Market Value £000	2016 Cost £000
Listed investments:				
UK Government securities	-	-	14,020	12,919
Other UK fixed interest	-	-	30,487	28,090
Other Overseas fixed interest	-	-	15,731	11,823
	-	-	60,238	52,832
UK equities	43,339	38,801	52,651	55,394
Overseas equities	130,332	98,911	52,905	30,852
Diversified Investment Fund units	22,662	22,002		
Property units	34,808	29,130	32,669	26,554
	231,141	188,844	138,225	112,800
Total investments	231,141	188,844	198,463	165,632
Cash on deposit and in hand	48	48	1,218	1,511
	231,189	188,891	199,681	167,143

Notes (continued)

5 Managed funds (continued)

	2017 £000	2016 £000
<i>Reconciliation of market value of investments</i>		
Market value at beginning of year	199,681	207,011
Investments purchased	107,856	12,237
Investments sold	(84,317)	(11,529)
Total realised gains/(losses) on managed fund investments	9,759	(6,358)
Movement in investment managers' cash balances, accrued income and expenses	(1,790)	(1,680)
	231,189	199,681
Market value at end of year	231,189	199,681

As at 31 March 2017, the Trust's funds other than programme-related investments are managed by Insight Investment Management, BlackRock Global Investors, Baillie Gifford & Co. and Schroders Property Managers. The split of the portfolio between the investment managers is as follows:

	2017 Market value £000	2017 Cost £000	2016 Market value £000	2016 Cost £000
Insight Investment Management	22,662	22,002	60,846	53,733
BlackRock Global Investors	86,200	57,861	105,567	86,257
Baillie Gifford	87,487	79,866	-	-
Schroders Property Managers	34,840	29,162	33,268	27,153
	231,189	188,891	199,681	167,143
	231,189	188,891	199,681	167,143

6 Programme-related investments

	Group		Charity	
	2017 £000	2016 £000	2017 £000	2016 £000
Equity (below)	6,951	6,590	27,442	23,097
Loans (note 7)	157	201	157	201
	7,108	6,791	27,599	23,298
	7,108	6,791	27,599	23,298

On 30 September 2016, Shetland Charitable Trust made a capital contribution by transferring the tangible fixed asset infrastructure for the District Heating Scheme to Shetland Heating Energy and Power Limited.

Notes *(continued)*

6 Programme-related investments *(continued)*

Equity – Group	Shares in subsidiary undertakings £000	Unlisted investments £000	Total £000
<i>Cost</i>			
At beginning of year	7,407	626	8,033
Additions	450	-	450
	-----	-----	-----
Cost at end of year	7,857	626	8,483
	-----	-----	-----
<i>Provisions</i>			
At beginning of year	817	626	1,443
Provided in year	89	-	89
	-----	-----	-----
Provisions at end of year	906	626	1,532
	-----	-----	-----
<i>Net book value</i>			
At 31 March 2017	6,951	-	6,951
	=====	=====	=====
At 31 March 2016	6,590	-	6,590
	=====	=====	=====
Equity – Charity			Investments in subsidiary undertakings £000
<i>Cost</i>			
At beginning of year			25,387
Additions			4,439

Cost at end of year			29,826

<i>Provisions</i>			
At beginning of year			2,290
Provided in year			94

Provisions at end of year			2,384

<i>Net book value</i>			
At 31 March 2017			27,442
			=====
At 31 March 2016			23,097
			=====

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:

	2017 SLAP £000	2017 SHEAP £000	2017 SCT R £000	2017 Total £000	2016 Total £000
Turnover	2,285	2,400	-	4,685	4,724
Cost of sales	(150)	(1,163)	-	(1,313)	(1,258)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Gross profit	2,135	1,236	-	3,372	3,466
Administration expenses	(207)	(975)	(5)	(1,187)	(912)
Revaluation of investment properties	-	-	-	-	282
Depreciation on investment properties	(464)	-	-	(464)	(663)
Provision made against equity investment	-	-	(89)	(89)	(127)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Operating profit/(loss)	1,464	261	(94)	1,631	2,046
Gain/(loss) on disposal of investment properties	(32)	-	-	(32)	47
Interest receivable and similar income	20	4	-	24	103
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Profit/(loss) on ordinary activities before taxation	1,452	265	(94)	1,623	2,196
Tax on profit/(loss) on ordinary activities	-	(14)	-	(14)	57
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Profit/(loss) on ordinary activities after taxation being profit/(loss) for the financial year	1,452	251	(94)	1,609	2,253
Gift aid payment to Shetland Charitable Trust	(1,986)	(200)	-	(2,186)	(2,581)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Retained (loss)/profit for the year after Gift Aid payment	(534)	51	(94)	(577)	(328)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Consistent with the current guidance, the Directors now consider the Gift Aid payment to be akin to a distribution rather than an expense, and as a result have now presented it outside of the profit and loss account as an adjustment to profit taken to retained earnings.

Notes (continued)

6 Programme-related investments (continued)

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

	2017 Total £000	2016 Total £000
Cost of sales	1,313	1,258
Administration expenses	1,187	912
Revaluation of investment properties	-	(282)
Depreciation on investment properties	464	663
Tax (credit)/charge on profit on ordinary activities	(163)	(57)
Profit on disposal of investment properties	32	(47)
Interest receivable and similar income	(24)	(103)
	<u>2,809</u>	<u>2,344</u>

Included within the companies' profit/(loss) for the year is a total of £2,185,880 (2016: £2,580,725) 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:

	2017 SLAP £000	2017 SHEAP £000	2017 SCT R £000	2017 Total £000	2016 Total £000
Tangible fixed assets	17,906	4,388	-	22,294	18,819
Investments	-	-	6,951	6,951	6,590
Current assets	4,529	2,070	6	6,605	7,086
Current liabilities	(2,186)	(1,377)	(5)	(3,568)	(4,078)
Provisions for liabilities and charges	(178)	(2)	-	(180)	(177)
Total net assets	<u>20,071</u>	<u>5,079</u>	<u>6,952</u>	<u>32,102</u>	<u>28,240</u>
Called up share capital	15,500	1,000	9,337	25,837	25,387
Profit and loss account	4,441	204	(2,385)	2,260	2,723
Capital contribution reserve	-	3,875	-	3,875	-
Revaluation reserve	130	-	-	130	130
Total reserves	<u>20,071</u>	<u>5,079</u>	<u>6,952</u>	<u>32,102</u>	<u>28,240</u>

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	2017 £000	2016 £000
Agricultural Ten Year Loan Scheme	160	206
Provisions for doubtful debts	(3)	(5)
	<u>157</u>	<u>201</u>

Notes (continued)

8 Debtors

	Group		Charity	
	2017 £000	2016 £000	2017 £000	2016 £000
Trade debtors	686	673	2	2
Amounts owing from subsidiary undertakings	-	-	2,190	2,574
Prepayments and accrued income	281	882	219	693
Other debtors:	135	-	-	-
Programme-related loans	-	66	-	66
	<u>1,102</u>	<u>1,621</u>	<u>2,411</u>	<u>3,335</u>

9 Cash and cash equivalents

Group	2017 £000	2016 £000
Cash at bank and in hand	<u>10,302</u>	<u>9,477</u>

10 Creditors: amounts falling due within one year

	Group		Charity	
	2017 £000	2016 £000	2017 £000	2016 £000
Trade creditors	1,202	263	35	141
Rents in advance	76	75	-	-
Corporation tax	-	-	-	-
Other tax and social security	-	12	-	12
Other creditors and accruals	359	1,440	220	178
Amounts owing to subsidiary undertakings	-	-	-	190
	<u>1,637</u>	<u>1,790</u>	<u>255</u>	<u>521</u>

Notes (continued)

11 Provisions for liabilities and charges

Group	Deferred taxation £000
At beginning of year	166
Credit for the year	(164)
Effect of increased tax rates	-
	2
At end of year	2

The deferred tax liability arising within the Trust's subsidiary companies at the year-end of £2,000 (2016: £166,000) is analysed as follows:

Group	Assets 2017 £000	2016 £000	Liabilities 2017 £000	2016 £000	Net 2017 £000	2016 £000
Accelerated capital allowances	-	(12)	2	178	2	166
	-	(12)	2	180	2	166
Net tax (assets) / liabilities	-	(12)	2	180	2	166

12 Expendable endowment

	Group Total £000	Charity Total £000
At beginning of year	244,814	244,814
Outgoing resources	(284)	(284)
Gain/(Losses) in the year	35,516	35,516
	280,046	280,046
At end of year	280,046	280,046

Notes (continued)

13 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	(10,730)	5,014	(1,279)	129	(6,866)
Net movement in funds	(3,262)	(587)	(58)	282	(3,625)
Actuarial (losses)/gains	-	-	(602)	-	(602)
At end of year	<u>(13,992)</u>	<u>4,427</u>	<u>(1,939)</u>	<u>411</u>	<u>(11,093)</u>

Charity	General funds £000	Pension reserve £000	Total unrestricted income funds £000
At beginning of year	(10,730)	(1,279)	(12,009)
Net incoming resources before other recognised gains and losses	(3,262)	(58)	(3,320)
Actuarial(losses)/gain	-	(602)	(602)
At end of year	<u>(13,992)</u>	<u>(1,939)</u>	<u>(15,931)</u>

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.

14 Operating leases

Group

Non-cancellable operating lease rentals are payable as follows:

	2017 £000	2016 £000
Less than one year	12	32
Between one and five years	49	49
More than five years	219	231
	<u>280</u>	<u>312</u>

During the year £22,875 was recognised as an expense in the consolidated statement of financial activities in respect of operating leases (2016: £32,177).

Investment properties are let under operating leases. The minimum lease payments receivable under non-cancellable leases are £1,953,000 less than one year, £4,194,000 between two and five years and £13,302,000 greater than 5 years.

15 Commitments

Capital commitments

SHEAP's contractual commitments to purchase tangible fixed assets at the year-end were £Nil (2016: £Nil).

16 Subsequent Events

There were no subsequent events post the balance sheet date and prior to the date of signing these accounts that would have a material impact on the results reported or the financial position of the group.

17 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 2016 and was updated for FRS 102 purposes to 31 March 2017 by a qualified independent actuary.

	2017 £000	2016 £000
Net pension liability defined benefit obligation	(5,193)	(4,018)
Fair value of plan assets	3,402	2,868
	<u>(1,791)</u>	<u>(1,150)</u>
Unfunded defined benefit obligations	(148)	(129)
	<u>(1,939)</u>	<u>(1,279)</u>

Movements in present value of defined benefit obligation:

	2017 £000	2016 £000
At 1 April	4,147	4,492
Current service cost	67	107
Interest cost	145	144
Actuarial (gains)/losses	1,074	(487)
Contributions by members	20	26
Benefits paid	(112)	(135)
	<u>5,341</u>	<u>4,147</u>

Movements in fair value of plan assets:

	2017 £000	2016 £000
At 1 April	2,868	2,867
Expected return on plan assets	100	91
Actuarial (losses)/gains	472	(52)
Contributions by employer	54	71
Contributions by members	20	26
Benefits paid	(112)	(135)
	<u>3,402</u>	<u>2,868</u>

Notes *(continued)*

17 Pension scheme *(continued)*

Expenditure recognised in the statement of financial activities:

	2017 £000	2016 £000
Current service cost	(67)	(107)
Interest cost	(45)	(53)
	(112)	(160)
	(112)	(160)

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

	2017 £000	2016 £000
Charitable activities – support costs	(112)	(160)
	(112)	(160)
	(112)	(160)

The total amount recognised in the other recognised gains and losses section of the statement of financial activities are as follows:

	2017 £000	2016 £000
Actuarial (losses)/gains	(1,074)	487
Return on assets attributed to the Charity excluding interest income	472	(52)
	(602)	435
	(602)	435

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

	2017 Fair value £000	2016 Fair value £000
Equities	2,756	2,209
Corporate bonds	272	287
Property	374	372
	3,402	2,868
	3,402	2,868
Actual return on plan assets	576	41
	576	41
	576	41

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.

Notes (continued)

17 Pension scheme (continued)

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

	2017	2016
	%	%
Discount rate	2.6	3.5
Future salary increases	4.4	4.2
Inflation / pension increase rate	2.4	2.2
	<hr/>	<hr/>

In valuing the liabilities of the pension fund at 31 March 2017, 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).

The Trust expects to contribute approximately £48,000 (2016: £65,000) to its defined benefit plans in the next financial year to 31 March 2017.

18 Related parties

In the year to 31 March 2017 the SCT Renewables Limited invested £450,000 (2016: £2,250,000) in Viking Energy Shetland LLP in which SCT Renewables Limited is a 90% partner.

In the year to 31 March 2017 Shetland Leasing and Property Developments Limited charged Viking Energy Shetland LLP £9,894 (2016: £10,132) in relation to office rental. The transactions were carried out at normal market rates. There was no balance due at 31 March 2017 (2016: £nil).

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.

19 Accounting estimates and judgements

Key sources of estimated uncertainty

The preparation of the financial statements requires Trustees and directors of the subsidiary companies to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Critical accounting judgements in applying the Company's accounting policies

The Trustees believe that major judgements applied around depreciation and pension valuation assumptions.

The Trustees exercise judgement to determine useful lives and residual values of property, plant and equipment. 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.

Notes *(continued)*

19 Accounting estimates and judgements *(continued)*

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. In valuing the liabilities of the pension fund and the Trust's share of the scheme assets at 31 March 2017, assumptions have been made. The latest full actuarial valuation was carried out at 31 March 2016 and was updated for FRS 102 purposes to 31 March 2017 by a qualified independent actuary. The assumptions used are consistent with those prescribed for FRS 102.

The directors of SHEAP believe that the major judgements applied are around the bad debt provision and depreciation rates. The company exercises judgement to determine useful lives and residual values of property, plant and equipment. The assets are depreciated down to their residual values over their estimated useful lives. The company exercises judgement in level of bad debts provision required based on its knowledge of customers and past experience.

The directors of SLAP consider that critical accounting judgements are applied in relation to the valuation of investment properties and depreciation.

Investment properties are held at fair value which is based on a valuation by an external, independent valuer, having an appropriate recognised professional qualification and recent experience in the location and class of property being valued. The valuer exercises judgement in assessing the expected rental value and yield of each property and the directors are required to consider whether such valuations are appropriate on an annual basis.

As set out in note 1.10, no depreciation is provided on investment properties applying the fair value model, except for a charge in relation to Scatsta Airport. The directors have assumed that this property will have a nil residual value, due to its specialised nature, when the current lease expires and the value is therefore being written down in line with that lease.