

**Shetland Charitable Trust**

Trustees' report and consolidated  
financial statements

Charity number SC027025

31 March 2013

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## Chair's introduction

I was appointed to the Chair of the newly constituted Shetland Charitable Trust on 21 February 2013 and I serve as the first non-councillor Chair of the Trust. The new Trust has been created with a majority of independent Trustees and this has been made possible by the adoption of a new constitution by the previous Trust. This I believe has led to a new dynamic within the Trust.

As a result of the new constitution the special measures imposed on the Trust by OSCR have now been lifted, thus freeing up staff time for the day to day activities of the Trust.

We have created a new committee structure which is made up of Audit, Investment and General Purpose. These committees will not be decision making, but will make recommendations to the full Trust for consideration.

We are, with the appointment of independent Directors in SLAP, SHEAP and VE, continuing the process of making these companies operate as independent businesses under policies and targets laid down by the Trust. This will hopefully lead to a better return to the Trust in the long term.

It is inevitable that the Trust will have to face challenges in the future which will predominantly focus on maximising income to enable the maximum amount to be disbursed to the local community. We are mid way through a three year budgetary period and it is inevitable that changes will have to be made at the end of this period.

I would like to take this opportunity to thank all the Trust staff for their help and professionalism in this time of change for the organisation. I am also very grateful for the help and support received from all Trustees since my appointment.

I would finally offer my thanks to the outgoing Chair, Drew Ratter, for his work in steering the Trust through the difficult period of reorganisation, and for his help to me as the new Chair.



**R W Hunter**

*Chair*

12 September 2013

## 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 to 20 February 2013**

W A Ratter, Chair (appointed 10 May 2012)	J W G Wills, Vice Chair (appointed 9 May 2012)
L Angus (resigned 2 May 2012)	L F Baisley (resigned 2 May 2012)
M J Bell (appointed 10 May 2012)	J Budge (resigned 2 May 2012)
M R Burgess (appointed 21 May 2012)	P J Campbell (appointed 10 May 2012)
G K Cleaver (appointed 15 May 2012; resigned 11 November 2012)	A T J Cooper
S W Coutts (appointed 14 May 2012)	A T Doull (resigned 2 May 2012)
A G L Duncan	W Fox (appointed 21 May 2012; resigned 3 July 2012)
E L Fullerton (resigned 2 May 2012)	F B Grains (resigned 2 May 2012)
R S Henderson	J H Henry (resigned 2 May 2012)
A J Hughson (resigned 2 May 2012)	R W Hunter
A I Manson (appointed 11 May 2012)	W H Manson (Chair, resigned 2 May 2012)
C H J Miller (resigned 2 May 2012)	R C Nickerson (resigned 2 May 2012)
V M L Nicolson	F A Robertson
G Robinson	D A Sandison
J G Simpson, (resigned 2 May 2012)	C L Smith (resigned 28 June 2012)
M G Smith, (appointed 9 May 2012)	T G C Smith (appointed 10 May 2012)
M W Stout, (appointed 21 May 2012)	A J Westlake (appointed 9 May 2012)
A S Wishart, (appointed 11 May 2012)	V Wishart (appointed 11 May 2012)

#### **From 21 February 2013, the Trustees of the re-constituted Trust were as follows:**

##### *Selected*

R W Hunter, Chair  
E L Fullerton  
C Hughson  
I Kinniburgh  
K Massey  
S Morgan  
I Napier  
J L B Smith

##### *Appointed by Shetland Islands Council*

J W G Wills, Vice Chair  
M J Bell  
P J Campbell (resigned 8 April 2013)  
A G L Duncan (appointed 12 June 2013)  
R S Henderson  
A I Manson  
W A Ratter  
M G Smith (resigned 9 April 2013)  
A J Westlake (appointed 12 June 2013)

## Trustees' Report *(continued)*

<b>Chief Executive</b>	Dr Ann Black		
<b>Financial Controller</b>	Jeff Goddard CA, PhD, BSc		
<b>Bankers</b>	Bank of Scotland 117 Commercial Street Lerwick ZE1 0DL		
<b>Auditor</b>	KPMG LLP 37 Albyn Place Aberdeen AB10 1JB		
<b>Solicitors - Governance and Charity Law</b>	Turcan Connell Princes Exchange 1 Earl Grey Street Edinburgh EH3 9EE	<b>Commercial</b>	Maclay Murray & Spens LLP Quartermile One 15 Lauriston Place Edinburgh EH3 9EP
<b>Investment Managers</b>	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		
<b>Custodian</b>	The Northern Trust Company 50 Bank Street Canary Wharf London E14 5NT		
<b>Investment Consultant</b>	Hymans Robertson LLP 20 Waterloo Street Glasgow G2 6DB		
<b>Investment Monitor</b>	The WM Company PLC 525 Ferry Road Edinburgh EH5 2AW		

## Trustees' Report *(continued)*

### **Section 2: Structure, Governance and Management**

#### **Governing Document**

The re-constituted Shetland Charitable 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 appoints Trustees, states the charitable purposes of the Trust and also sets out the powers of the Trustees.

#### **Charitable Status**

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

#### **Trustees – Appointment, Induction and Training**

The re-constituted 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.

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

#### **Management and Administration**

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

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

#### **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. On 13 September 2012, the Trustees decided to change the composition of the boards of these companies. After a selection process, the following independent Non-Executive Directors were appointed with effect from 1 December 2012.

<b>Shetland Leasing and Property Developments Limited (SLAP)</b>	Susan Groat - Chair Bryan Leask William Manson
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<b>Shetland Heat Energy and Power Limited (SHEAP)</b>	Andrew Blackadder - Chair Martin Tregonning Paul Clelland
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CT Shetland (TM) Limited is a dormant company whose present purpose is to register and own certification trademarks, for example knitwear trademarks. It has been decided that meantime it only requires one director.

<b>C. T. Shetland (T. M.) Limited</b>	Keith Massey (appointed 23 May 2013)
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## Trustees' Report *(continued)*

Viking Energy Limited (VEL) has a 90% interest in Viking Energy Shetland LLP 'the Shetland Partner' in the Viking Energy partnership. As VEL is not a direct participant in the Viking Energy project, and to help clarity of understanding, Trustees decided on 13 December 2012 to change the company's name to SCT Renewables Limited, and to appoint one director.

**SCT Renewables Limited**                      James Smith (appointed 21 February 2013)

### **Risk Management**

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

On 28 March 2013 Trustees reviewed the 33 risks which were previously identified as possibly impacting on the business of the Trust. In this review, one was classified as "red", 13 as "amber" and 19 as "green", depending on the likelihood of occurrence and the severity of the impact should it occur. Only one "red" risk was identified, which concerns the loss of charitable status. The chance of this happening is almost nil, however, the consequence for the Trust would be catastrophic so it has been retained on the Register. It is seen as even less likely with the governance changes, which have brought the Trust into line with the requirements of current Scottish charity law.

### **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 senior managers in the Shetland Islands Council as to what activities it might carry out for the public benefit of the inhabitants of Shetland. The Service Co-ordinators 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.

## Trustees' Report *(continued)*

### Grant Making Policy

The Trust is generally 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 2012, 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', ie 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. Trustees agreed to set budgets of no more than £11 million for each of the next three years, 2012/13, 2013/14 and 2014/15. Many of the organisations funded have been granted three year funding packages, comprising "standstill" grants for the three years to 31 March 2015.

### 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 2013, the Trust provided grant assistance to the following organisations towards the cost of providing a range of social, leisure, cultural, heritage and environmental activities:

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

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

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 November 2012, which set out, in detail, how the Trust's money makes a difference to people and communities. In the main, Trustees were satisfied that most organisations were performing satisfactorily against their stated targets, and there were no significant areas of concern.

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

- Christmas Grant to Pensioners and Disabled Persons
- Development Grant Aid Scheme
- Community Support Grant Aid Scheme
- Arts Grant Aid Scheme
- Sheltered Housing Heating
- Senior Citizen's Clubs
- Supported employment
- Rural Care Model
- Local Charitable Organisations
- Social Assistance Grants
- Bus Services Elderly and Disabled



## Trustees' Report *(continued)*

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 2012/13. The rentals from the land at the Sullom Voe terminal also made a useful contribution.

The Trust continues to review its own management and administration costs. These have fallen from over £900,000 in 2002/03 to under £600,000 in 2012/13 partly due to the introduction of service level agreements with the Shetland Islands Council for the provision of agreed, specific, expert work, as negotiated by the Trust's independent management. Furthermore, the Trust staff has gradually reduced from 11 in 2005/06 to 6.6 full time equivalents in 2012/13.

### *Charitable Expenditure*

	2012/13 budget £	Actual spend to 31 March 2013 £	2012 spend £
<b><u>Trusts over £0.5m</u></b>			
Shetland Amenity Trust	1,052,728	1,052,728	1,052,728
Shetland Arts Development Agency	696,038	696,038	732,218
Shetland Recreational Trust	2,518,550	2,518,550	2,583,392
<b><u>Other Charitable Organisations</u></b>			
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	54,075
Shetland Youth Information Service	188,840	188,840	188,840
Shetland Befriending Scheme	54,418	54,418	54,418
Citizens Advice Bureau	147,383	147,383	147,383
COPE Limited	154,967	154,967	154,967
Couple Counselling Shetland	12,000	12,000	12,000
Shetland Link Up	47,994	47,994	47,994
Voluntary Action Shetland	144,367	144,367	144,367
Festival Grants	30,000	30,000	30,000
Local Charitable Organisations	14,000	10,552	7,552
Women's Royal Voluntary Service	47,622	47,622	47,622
Alternative Psychological Therapies	26,212	-	-
<b>Sub Total Organisations</b>	<b>5,247,135</b>	<b>5,217,475</b>	<b>5,315,517</b>

## Trustees' Report *(continued)*

	2012/13 budget £	Actual spend to 31 March 2013 £	2012 spend £
<b><u>Schemes</u></b>			
Community Development Grants	10,172	5,250	10,539
Community Support Grants	76,421	76,349	73,571
Arts Grant Scheme	35,000	28,893	34,380
Sheltered Housing Heating	25,500	25,500	25,500
Senior Citizens Clubs	20,000	18,515	14,974
Support to Rural Care Model	2,491,000	2,491,000	2,491,000
Social Assistance Grants	35,000	5,497	14,588
Buses for Elderly and Disabled	49,980	49,980	49,980
Supported Employment	8,000	8,000	7,469
<b>Sub Total Schemes</b>	<b>2,751,073</b>	<b>2,708,984</b>	<b>2,722,001</b>
<b><u>Direct Schemes</u></b>			
Springfield	1,500	1,746	2,085
Christmas grant Scheme	487,000	415,936	453,768
Planned Maintenance	1,711,549	1,711,988	1,604,605
<b>Sub Total Direct Schemes</b>	<b>2,200,049</b>	<b>2,129,670</b>	<b>2,060,458</b>
<b><u>One-Off Projects</u></b>			
Scalloway Swimming Pool Roof	200,000	181,690	
Sandwick Swimming Pool Roof	29,366	-	170,634
COPE Limited	-	-	288,000
Shetland Arts Development Agency	-	-	100,000
Joint Legal advice	-	-	7,980
<b>Sub Total One-Off Projects</b>	<b>229,366</b>	<b>181,690</b>	<b>566,614</b>
Surplus Grants Refunded	-	(10,787)	(38,735)
<b>Sub-total charitable expenditure</b>	<b>10,427,623</b>	<b>10,227,032</b>	<b>10,625,855</b>
Trust Administration, including governance costs	539,760	527,399	567,567
<b>Total</b>	<b>10,967,383</b>	<b>10,754,431</b>	<b>11,193,422</b>

Total charitable expenditure and administration costs are shown before adjustment for pension adjustments under FRS 17 totalling £58,000, 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 £20.9 million was generated in 2012/13. In addition, in 2012/13, around £3.5 million income was derived from investments in Shetland, valued at around £40 million, in SLAP, the land at Sullom Voe Terminal and the District Heating Scheme infrastructure.

The Trust Deed does not require the Trust to distinguish between revenue and capital (income or expenditure), and all of the Trust's funds are 'unrestricted' (see below). These two things together mean that although the general funds are shown as being in deficit in the 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 2013) of the Trust's reserves that are invested to generate income (ie not the 'Donated Properties') is around £222 million, which covers current levels of expenditure for around 21 years. Trustees seek to control risk through proper diversification and take advice, as appropriate, in determining the mix of asset types in its investments. None of the Trust's funds are for restricted purposes. Trustees are free to determine how to apply their Unrestricted Reserves in a manner consistent with the Trust objectives and in line with its Budget Strategy.

#### **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

2012/13 was a good year for investment returns, achieving £24.4 million (about 10.4%). The Trust's target is to be self-sustaining with net investable assets of £220 million (in March 2015 money). The good performance of all the investments meant that at 31 March 2013, the Trust was above that target.

#### Stock Exchanges

As at 31 March 2013, three fund managers managed the Trust's Stock Exchanges portfolio. BlackRock Global Investors manage around £113 million invested in equities (shares), Insight Investment manage around £52 million in bonds, and Schroders Property Managers manage around £22 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 £20 million and it generated rental income of over £2.8 million in 2012/13. The Board of Directors resolved to make a gift aid payment of £2.9 million to the Trust in the financial year 2012/13. 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 £0.447 million to the Trust in the financial year 2012/13.

SCT Renewables Limited is a 100% owned subsidiary of the Trust. The Trust has invested £5.22 million at 31 March 2013. 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)*

### 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*

#### Committee Structure

The newly constituted Trustee Board have agreed a committee structure, which will assist the Trust to function more efficiently and effectively. The committee structure consists of three committees, Audit and Governance, Investment and General Purposes. Each committee consists of a chair and up to four Trustees. The committees would be non-decision making and will make recommendations to the Trustee Board.

#### Financial Position

The newly constituted Trustee Board agreed to continue with the current financial plan and set "standstill" budgets for 2013/14.

#### Strategic Reviews

The Trustees intend to review the investment and disbursements strategy during the course of 2013/14.



**R W Hunter**  
*Chair*

12 September 2013

## **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 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.

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

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

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

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



37 Albyn Place  
Aberdeen  
AB10 1JB  
United Kingdom

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

We have audited the group and charity financial statements ("the financial statements") of Shetland Charitable Trust for the year ended 31 March 2013 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 (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://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 2013 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.

David Watt  
For and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
Eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

19 September 2013

## Consolidated statement of financial activities for the year ended 31 March 2013

	Note	Unrestricted funds		2013	2012
		General funds £000	Expendable endowment £000	Total £000	Total £000
<b>Incoming resources</b>					
<i>Incoming resources from generated funds</i>					
Activities for generating funds – trading subsidiaries	6	5,221	-	5,221	4,535
Investment income		4,470	-	4,470	4,790
<i>Other incoming resources</i>					
Rental income		1,307	-	1,307	1,220
Other income		28	-	28	73
Total incoming resources		11,026	-	11,026	10,618
<b>Resources expended</b>					
<i>Cost of generating funds</i>					
Expenditure of trading subsidiaries	6	(6,525)	-	(6,525)	(2,274)
Investment management costs		(668)	-	(668)	(701)
<i>Charitable activities</i>	2	(10,722)	(1,264)	(11,986)	(12,457)
<i>Governance costs</i>	2	(90)		(90)	(79)
Total resources expended		(18,005)	(1,264)	(19,269)	(15,511)
<b>Net (outgoing) resources before transfers</b>		(6,979)	(1,264)	(8,243)	(4,893)
<b>Transfers</b>					
Gross transfers between funds	12,13	-	-	-	-
Net (outgoing) resources before other recognised gains and losses		(6,979)	(1,264)	(8,243)	(4,893)
<b>Other recognised gains and losses</b>					
Gains on managed fund investments	5	-	17,559	17,559	2,140
Other losses on investments		-	-	-	(168)
Actuarial (losses) in defined benefit pension scheme	13	(292)	-	(292)	(94)
Realised gain on revaluation of investment properties		20	-	20	117
<b>Net movement in funds</b>		(7,251)	16,295	9,044	(2,898)
Fund balances brought forward		7,756	209,122	216,878	219,776
<b>Fund balances carried forward</b>		505	225,417	225,922	216,878

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 2013*

	Note	Unrestricted funds		2013 Total £000	2012 Total £000
		General funds £000	Expendable endowment £000		
<b>Incoming resources</b>					
<i>Incoming resources from generated funds</i>					
Investment income		4,470	-	4,470	4,790
Gift aid receipts from subsidiary undertakings	6	6,458	-	6,458	3,481
<i>Other incoming resources</i>					
Rental income		1,307	-	1,307	1,220
Other income		28	-	28	41
<b>Total incoming resources</b>		<b>12,263</b>	<b>-</b>	<b>12,263</b>	<b>9,532</b>
<b>Resources expended</b>					
<i>Cost of generating funds</i>					
Investment management costs		(668)	-	(668)	(701)
Capital reduction in investment		-	-	-	(35,000)
Provision (made) / realised against equity investment	6	(438)	-	(438)	21,146
<i>Charitable activities</i>	2	(10,722)	(1,264)	(11,986)	(12,457)
<i>Governance costs</i>	2	(90)	-	(90)	(79)
<i>Other resources expended</i>					
Interest payable on loan from subsidiary		(474)	-	(474)	(525)
<b>Total resources expended</b>		<b>(12,392)</b>	<b>(1,264)</b>	<b>(13,656)</b>	<b>(27,616)</b>
<b>Net (outgoing) / incoming resources before other recognised gains and losses</b>		<b>(129)</b>	<b>(1,264)</b>	<b>(1,393)</b>	<b>(18,084)</b>
<b>Other recognised gains and losses</b>					
Gains on managed fund investments	5	-	17,559	17,559	2,140
Actuarial (losses)/gains in defined benefit pension scheme	13	(292)	-	(292)	(94)
<b>Net movement in funds</b>		<b>(421)</b>	<b>16,295</b>	<b>15,874</b>	<b>(16,038)</b>
<b>Total funds brought forward</b>		<b>(5,410)</b>	<b>209,122</b>	<b>203,712</b>	<b>219,750</b>
<b>Fund balances carried forward</b>		<b>(5,831)</b>	<b>225,417</b>	<b>219,586</b>	<b>203,712</b>

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

at 31 March 2013

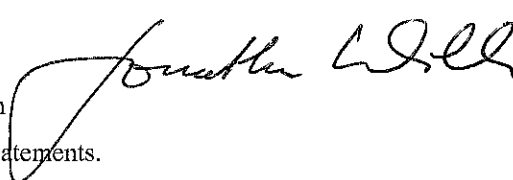
	Note	2013 £000	2013 £000	2012 £000	2012 £000
<b>Fixed assets</b>					
Tangible assets	4		29,458		33,198
Investments:					
Investments	5	187,923		174,097	
Programme-related investments	6, 7	4,062		2,917	
			<u>191,985</u>		<u>177,014</u>
<b>Total fixed assets</b>			<b>221,443</b>		<b>210,212</b>
<b>Current assets</b>					
Stocks		48		53	
Debtors	8	2,305		2,797	
Cash at bank and in hand		7,337		8,254	
			<u>9,690</u>	<u>11,104</u>	
<b>Total current assets</b>		<b>9,690</b>		<b>11,104</b>	
<b>Creditors: amounts falling due within one year</b>	9	<b>(3,234)</b>		<b>(2,191)</b>	
			<u>6,456</u>	<u>8,913</u>	
<b>Net current assets</b>			<b>6,456</b>	<b>8,913</b>	
<b>Total assets less current liabilities</b>			<b>227,899</b>	<b>219,125</b>	
<b>Provisions for liabilities and charges</b>	10		<b>(296)</b>	<b>(1,004)</b>	
<b>Creditors: amounts falling due outwith one year</b>			<b>(88)</b>	<b>-</b>	
			<u>227,515</u>	<u>218,121</u>	
<b>Net assets excluding pension liability</b>			<b>227,515</b>	<b>218,121</b>	
Pension liability	13		<b>(1,593)</b>	<b>(1,243)</b>	
			<u>225,922</u>	<u>216,878</u>	
<b>Net assets including pension liability</b>			<b>225,922</b>	<b>216,878</b>	
<b>Represented by:</b>					
Expendable endowment	11		225,417		209,122
Unrestricted income funds:	12				
General funds			(3,882)		(4,167)
Trading funds			5,779		12,985
Revaluation reserve			201		181
			<u>2,098</u>	<u>8,999</u>	
Unrestricted income funds excluding pension reserve			<b>2,098</b>	<b>8,999</b>	
Pension reserve	13		<b>(1,593)</b>	<b>(1,243)</b>	
			<u>505</u>	<u>7,756</u>	
<b>Total unrestricted income funds</b>			<b>505</b>	<b>7,756</b>	
<b>Total group funds</b>			<b>225,922</b>	<b>216,878</b>	

These financial statements were approved by the trustees on 12 September 2013 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

at 31 March 2013

	<i>Note</i>	2013 £000	2013 £000	2012 £000	2012 £000
<b>Fixed assets</b>					
Tangible assets	4		8,405		9,549
Investments:					
Investments	5	187,923		174,097	
Programme-related investments	6, 7	39,793		38,306	
			<u>227,716</u>		<u>212,403</u>
<b>Total fixed assets</b>			<u>236,121</u>		<u>221,952</u>
<b>Current assets</b>					
Debtors	8	4,203		2,014	
Cash at bank and in hand		3,968		4,075	
			<u>8,171</u>	<u>6,089</u>	
<b>Creditors: amounts falling due within one year</b>	9	<u>(23,113)</u>		<u>(586)</u>	
<b>Net current assets</b>			<u>(14,942)</u>		<u>5,503</u>
<b>Total assets less current liabilities</b>			<u>221,179</u>		<u>227,455</u>
<b>Creditors: amounts falling due after one year</b>	9		<u>-</u>		<u>(22,500)</u>
<b>Net assets excluding pension liability</b>			<u>221,179</u>		<u>204,955</u>
Pension liability	13		<u>(1,593)</u>		<u>(1,243)</u>
<b>Net assets including pension liability</b>			<u>219,586</u>		<u>203,712</u>
<b>Represented by:</b>					
Expendable endowment	11		225,417		209,122
Unrestricted income funds					
General funds	12		(4,238)		(4,167)
Pension reserve	13		(1,593)		(1,243)
			<u>(5,831)</u>		<u>(5,410)</u>
<b>Total unrestricted income funds</b>			<u>219,586</u>		<u>203,712</u>

These financial statements were approved by the trustees on 12 September 2013 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 2013*

	2013 £000	2013 £000	2012 £000	2012 £000
<b>Net cash (outflow) from operating activities</b>		(2,942)		(7,846)
<b>Returns on investment and servicing of finance</b>				
Investment income and interest received		4,379		4,790
<b>Capital expenditure and financial investment</b>				
Purchase of managed funds investments	(52,445)		(119,487)	
Purchase of tangible fixed assets	(2,326)		(4,184)	
Purchase of shares within joint venture	(1,220)		(720)	
Sale of managed funds investments	55,578		127,250	
		<hr/>	<hr/>	
<b>Net cash inflow from capital expenditure and financial investment</b>		(413)		2,859
<b>Management of liquid resources</b>				
Net movement in cash flows attributable to managed fund investments		250		1,477
Funds (deposited) withdrawn from short term deposit (net)		(2,191)		(1,828)
		<hr/>		<hr/>
<b>(Decrease) in cash in the year</b>		(917)		(548)
		<hr/> <hr/>		<hr/> <hr/>

**Notes to the consolidated cash flow statement**  
*for the year ended 31 March 2013*

<b>Reconciliation of net (outgoing) resources to net cash outflow from operating activities</b>	<b>2013</b> <b>£000</b>	<b>2012</b> <b>£000</b>
Net (outgoing) resources	(8,229)	(4,893)
Investment income and interest receivable	4,470	(4,790)
Depreciation and impairment of tangible fixed assets	1,305	1,442
Movement in pension liability, excluding actuarial gains and losses	58	(36)
Decrease (increase) in stock	5	(11)
Decrease (increase) in debtors	492	702
(Decrease) in creditors	(1,043)	(126)
Decrease in provisions	-	(134)
	<hr/>	<hr/>
<b>Net cash outflow from operating activities</b>	<b>(2,942)</b>	<b>(7,846)</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Reconciliation of net cash flow to movement in net funds</b>	<b>2013</b> <b>£000</b>	<b>2012</b> <b>£000</b>
(Decrease) in cash in the year	(917)	(548)
Cash outflow (inflow) from increase (decrease) in liquid resources	2,823	1,477
	<hr/>	<hr/>
Change in net funds resulting from cash flows	1,906	929
Net funds at the start of the year	11,164	10,235
	<hr/>	<hr/>
Net funds at the end of the year	13,070	11,164
	<hr/> <hr/>	<hr/> <hr/>
<b>Net funds comprise:</b>		
Cash in hand held by investment managers	5,733	2,910
Cash at bank and in hand	7,337	8,254
	<hr/>	<hr/>
	<b>13,070</b>	<b>11,164</b>
	<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.

#### *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 (ie there is no minimum level above which assets purchased are capitalised). Tangible fixed assets are capitalised at cost, with the exception of investment properties.

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

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

## Notes (continued)

### 1 Accounting policies (continued)

The asset value of the Sullom Voe site is being depreciated over its estimated remaining economic life of ten years commencing 1 April 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:

	2013 £000	2012 £000
<b>General funds</b>		
Payments to charitable organisations	5,217	5,316
Schemes	2,709	2,722
Direct schemes	2,130	2,060
One-off projects	182	567
Charitable grants repaid	(11)	(39)
	<hr/>	<hr/>
Total charitable grants	10,227	10,626
Support costs, excluding governance costs (below)	437	471
Pension adjustments under FRS 17	58	36
	<hr/>	<hr/>
Total charitable expenditure – general funds	10,722	11,133
	<hr/>	<hr/>
<b>Expendable endowment</b>		
Depreciation – see note 4	1,264	1,324
	<hr/>	<hr/>
Total resources expended on charitable activities	11,986	12,457
	<hr/> <hr/>	<hr/> <hr/>

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

#### Support costs

Support costs for the year of £437,000 (2012: £471,000) principally represent administration expenses and are all deemed to be attributable to the group's charitable activities. Included within administration expenses is £588,000 (2012: £595,000) in respect of staff costs (see note 3), of which £328,378 (2012: £234,438) was charged to subsidiaries.

#### Governance costs

Governance costs totalling £90,000 (2012: £79,000) comprise the costs associated with the Trust's compliance with charity regulation and good practice. They include £55,000 (2012: £38,000) representing an appropriate apportionment of salary costs, together with trustees' expenses (note 3), and audit fees of £17,000 (2012: £24,000).

	<b>Group and charity</b>	
	Total 2013 £	Total 2012 £
Allocation of staff and support costs, including Trustees' allowance and expenses (see note 3)	55	38
Other costs	18	23
External auditor's remuneration:		
Audit of these financial statements	17	18
Audit of subsidiary undertakings (excluded from charitable governance costs)	20	26
Other services: taxation in relation to subsidiary undertakings	18	21
	<hr/>	<hr/>
<b>Total governance costs</b>	90	79
	<hr/> <hr/>	<hr/> <hr/>



## Notes (continued)

### 3 Staff numbers and costs

The group had an average of 13 employees during the year (2012: 14). The aggregate payroll cost of these employees was as follows:

	2013 £000	2012 £000
Wages and salaries	466	465
Social security costs	39	41
Pension costs / (credit)	83	89
	588	595
	588	595

Employee costs totalling £328,377 (2012: £234,438) 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. Three employees worked part-time on Shetland Leasing and Property Development Limited's activities during the year and one employee worked part-time on SCT Renewables Limited's activities during the year.

One employee (2012: two employees) received an emolument totalling between £60,000 and £69,999 and one employee (2012: none) received an emolument totalling between £70,000 and £79,999. Retirement benefits are accruing to these members of staff under a defined benefit pension scheme; contributions in 2012/13 totalled £23,206. No other employees received emoluments totalling in excess of £60,000 in either the current or previous financial year.

The chair and the vice-chair received trustees' allowances totalling £622 (2012: £7,490) from the Trust and its group during the year. Expenses totalling £4,449 (2012: £4,132) were reimbursed to 14 trustees (2012: 12 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
<i>Cost or valuation</i>						
At beginning of year	25,434	17,017	14,863	865	8,848	67,027
Additions	60	120	18	-	2,173	2,371
Disposals	-	-	(115)	-	(11)	(126)
Revaluations	-	-	(4,609)	-	-	(4,609)
Transfers	-	-	6,583	-	(6,583)	-
At end of year	25,494	17,137	16,740	864	4,427	64,662
<i>Depreciation</i>						
At beginning of year	20,821	12,081	-	388	539	33,829
Charge for year	996	275	-	34	82	1,387
Disposals	-	-	-	-	(11)	(11)
At end of year	21,817	12,356	-	422	610	35,205
<i>Net book value</i>						
At 31 March 2013	3,677	4,781	16,740	443	3,817	29,458
At 31 March 2012	4,613	4,936	14,863	477	8,309	33,198

**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 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:

	2013	2012		
	£000	£000		
Plant and machinery, fixtures and fittings held by Shetland Heat Energy and Power Limited	415	450		
Assets under construction held by Shetland Leasing and Property Development Limited	3,402	7,857		
	<u>          </u>	<u>          </u>		
<b>Charity</b>			<b>District heating scheme infrastructure</b>	
	<b>Land and buildings</b>	<b>Donated Assets</b>	<b>infrastructure</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<i>Cost</i>				
At beginning of year	16,275	9,159	17,017	42,451
Additions	-	-	120	120
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At end of year	16,275	9,159	17,137	42,571
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<i>Depreciation</i>				
At beginning of year	15,525	5,296	12,081	32,902
Charge for year	75	914	275	1,264
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At end of year	15,600	6,210	12,356	34,166
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<i>Net book value</i>				
At 31 March 2013	<u>675</u>	<u>2,949</u>	<u>4,781</u>	<u>8,405</u>
At 31 March 2012	<u>750</u>	<u>3,863</u>	<u>4,936</u>	<u>9,549</u>

**Notes (continued)**

**5 Managed funds**

<b>Group and Charity</b>	<b>2013 Market Value £000</b>	<b>2013 Cost £000</b>	<b>2012 Market Value £000</b>	<b>2012 Cost £000</b>
Listed investments:				
UK Government securities	21,524	20,356	19,572	18,595
Other UK fixed interest	19,799	17,623	19,455	18,718
Other Overseas fixed interest	6,509	4,166	10,710	8,545
	<hr/> 47,832	<hr/> 42,145	<hr/> 49,737	<hr/> 45,858
UK equities	56,372	45,255	50,119	45,251
Overseas equities	57,151	39,909	51,061	42,081
Property units	20,801	20,402	20,148	19,261
	<hr/> 134,323	<hr/> 105,566	<hr/> 121,328	<hr/> 106,593
Total investments	182,155	147,670	171,065	152,451
Cash on deposit and in hand	5,768	5,733	3,032	2,911
	<hr/> 187,923	<hr/> 153,403	<hr/> 174,097	<hr/> 155,362

	<b>2013 £000</b>	<b>2012 £000</b>
<i>Reconciliation of market value of investments</i>		
Market value at beginning of year	174,097	178,793
Investments purchased	53,445	119,487
Investments sold	(55,578)	(127,250)
Total realised gains on managed fund investments	15,709	2,140
Movement in investment managers' accrued income and expenses	250	927
	<hr/> 187,923	<hr/> 174,097

As at 31 March 2013, 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:

	<b>2013 Market value £000</b>	<b>2013 Cost £000</b>	<b>2012 Market value £000</b>	<b>2012 Cost £000</b>
Insight Investment Management	52,242	46,520	51,866	47,866
BlackRock Global Investors	113,525	85,167	101,190	87,342
Schroders Property Managers	22,156	21,756	21,041	20,154
	<hr/> 187,923	<hr/> 153,443	<hr/> 174,097	<hr/> 155,362

**Notes** *(continued)*

**6 Programme-related investments**

	<b>Group</b>		<b>Charity</b>	
	<b>2013</b>	2012	<b>2013</b>	2012
	<b>£000</b>	£000	<b>£000</b>	£000
Equity (below)	<b>3,676</b>	2,257	<b>39,407</b>	37,646
Loans (note 7)	<b>386</b>	660	<b>386</b>	660
	<u><b>4,062</b></u>	<u>2,917</u>	<u><b>39,793</b></u>	<u>38,306</u>
<b>Equity - Group</b>				
		<b>Shares in subsidiary undertakings</b>	<b>Unlisted investments</b>	<b>Total</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>
<i>Cost</i>				
At beginning of year		2,232	626	2,858
Additions		1,800	-	1,800
Disposals		-	-	-
		<u>4,032</u>	<u>626</u>	<u>4,658</u>
Cost at end of year				
<i>Provisions</i>				
At beginning of year		-	601	601
Provided in year		356	25	381
		<u>356</u>	<u>626</u>	<u>982</u>
Provisions at end of year				
<i>Net book value</i>				
At 31 March 2013		<u><b>3,676</b></u>	<u>-</u>	<u><b>3,676</b></u>
At 31 March 2012		<u>2,232</u>	<u>25</u>	<u>2,257</u>
<b>Equity – Charity</b>			<b>Shares in subsidiary undertakings</b>	
			<b>£000</b>	
<i>Cost</i>				
At beginning of year				39,020
Additions				2,200
				<u>41,220</u>
Cost at end of year				
<i>Provisions</i>				
At beginning of year				1,375
Provided in year				438
				<u>1,813</u>
Provisions at end of year				
<i>Net book value</i>				
At 31 March 2013				<u><b>39,407</b></u>
At 31 March 2012				<u>37,646</u>

**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:

	<b>2013</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>	2012
	<b>SLAP</b>	<b>SHEAP</b>	<b>SCT R</b>	<b>Total</b>	Total
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	£000
<b>Turnover</b>	<b>2,887</b>	<b>2,334</b>	<b>-</b>	<b>5,221</b>	4,535
Cost of sales	(117)	(1,103)	-	(1,220)	(1,072)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Gross profit</b>	<b>2,770</b>	<b>1,231</b>	<b>-</b>	<b>4,001</b>	3,463
Administration expenses	(230)	(720)	(88)	(1,038)	(1,334)
Gift aid payment to Shetland Charitable Trust	(6,011)	(447)	-	(6,458)	(3,481)
Deficit on revaluation of investment properties	(4,639)	-	(356)	(4,995)	-
Other operating income	-	-	-	-	19
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Operating (loss) profit</b>	<b>(8,110)</b>	<b>64</b>	<b>(444)</b>	<b>(8,490)</b>	(1,333)
(Loss) on disposal of investment properties	(28)	-	-	(28)	-
Interest receivable and similar income	483	3	6	492	538
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>(Loss) on ordinary activities before taxation</b>	<b>(7,655)</b>	<b>67</b>	<b>(438)</b>	<b>(8,026)</b>	(795)
Tax on (loss)/profit on ordinary activities	722	(14)	-	722	132
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>(Loss) on ordinary activities after taxation being loss for the financial year</b>	<b>(6,933)</b>	<b>53</b>	<b>(438)</b>	<b>(7,318)</b>	(663)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**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:

	2013 Total £000	2012 Total £000
Cost of sales	1,220	1,072
Administration expenses	1,392	1,334
Investment property valuation deficit	4,639	-
Tax (credit) charge on profit on ordinary activities	(708)	(132)
Interest receivable and similar income	(18)	(13)
	6,525	2,261

Included within the companies' profit (loss) for the year is a total of £6,458,005 (2012: £3,481,149) 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:

	2013 SLAP £000	2013 SHEAP £000	2013 SCT R £000	2013 Total £000	2012 Total £000
Tangible fixed assets	20,639	414	-	21,053	23,649
Investments	-	-	3,676	3,676	2,094
Current assets	24,518	1,409	1,465	27,392	27,535
Current liabilities	(3,551)	(729)	(1,734)	(5,994)	(1,590)
Creditors: amounts due after one year	(343)	(41)	-	(370)	(1,004)
	41,263	1,053	3,407	45,757	50,684
Called up share capital	35,000	1,000	5,220	41,220	39,020
Profit and loss account	6,062	53	(1,939)	4,210	11,483
Revaluation reserve	201	-	126	327	181
	41,263	1,053	3,407	45,723	50,684

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

**7 Programme-related investments – Loans**

	2013 £000	2012 £000
<b>Group and charity</b>		
Agricultural Ten Year Loan Scheme	439	719
Provisions for doubtful debts	(53)	(59)
	386	660

**Notes** *(continued)*

**8 Debtors**

	Group		Charity	
	2013 £000	2012 £000	2013 £000	2012 £000
Trade debtors	981	768	85	16
Amounts owing from subsidiary undertakings	343	-	3,154	20
Prepayments and accrued income	643	1,118	626	1,100
Other debtors:				
VAT recoverable		33	-	-
Programme-related loans	338	878	338	878
	<u>2,305</u>	<u>2,797</u>	<u>4,203</u>	<u>2,014</u>

**9 Creditors: amounts falling due within one year**

	Group		Charity	
	2013 £000	2012 £000	2013 £000	2012 £000
Trade creditors	822	95	34	46
Rents in advance	67	66	-	-
Other tax and social security	94	14	39	6
Other creditors and accruals	572	2,016	540	534
Amounts owing to subsidiary undertakings	-	-	22,500	-
Amounts owing to partnership interest	1,679	-	-	-
	<u>3,234</u>	<u>2,191</u>	<u>23,113</u>	<u>586</u>

An unsecured loan of £22,500,000 (2012: £22,500,000) from Shetland Leasing and Property Developments Limited is repayable by 31 March 2014. It bears interest at a rate of 1.5% over base rate.

**Notes** *(continued)*

**10 Provisions for liabilities and charges**

<b>Group</b>	<b>Deferred taxation £000</b>
At beginning of year	1,004
Credit for the year	(708)
Effect of increased tax rates	(-)
Adjustment in respect of prior period	-
	296
At end of year	296

The deferred tax liability arising within the Trust's subsidiary companies at the yearend of £296,000 (2012: £1,004,000) is analysed as follows:

	<b>2013 £000</b>	<b>2012 £000</b>
Accelerated capital allowances	153	196
Other timing differences: Gift aid	143	808
Other timing differences	-	-
	296	1,004
	296	1,004

**11 Expendable endowment**

	<b>Group Total £000</b>	<b>Charity Total £000</b>
At beginning of year	209,122	209,122
Outgoing resources	(1,264)	(1,264)
Gains in the year	17,559	17,559
	225,417	225,417
At end of year	225,417	225,417



**Notes** *(continued)*

**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	(4,167)	12,985	(1,243)	181	7,756
Net movement in funds	227	(7,206)	-	20	(6,959)
Actuarial losses	-	-	(292)	-	(292)
Transfers between funds	58	-	(58)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	<b>(3,882)</b>	<b>5,779</b>	<b>(1,593)</b>	<b>201</b>	<b>505</b>
	<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	(4,167)	(1,243)	(5,410)
Net incoming resources before other recognised gains and losses	(421)	-	(421)
Actuarial losses	292	(292)	-
Transfer to (from) pension reserve	58	(58)	-
	<hr/>	<hr/>	<hr/>
At end of year	<b>(4,238)</b>	<b>(1,593)</b>	<b>(5,831)</b>
	<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.

**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 2011 and was updated for FRS 17 purposes to 31 March 2012 by a qualified independent actuary.

	2013 £000	2012 £000
Present value of funded defined benefit obligations	(3,165)	(2,598)
Fair value of plan assets	1,701	1,427
	<hr/>	<hr/>
Present value of unfunded defined benefit obligations	(1,464) (129)	(1,171) (72)
	<hr/>	<hr/>
Net (liability)	<b>(1,593)</b>	<b>(1,243)</b>
	<hr/> <hr/>	<hr/> <hr/>

**Notes** *(continued)*

**13 Pension scheme** *(continued)*

Movements in present value of defined benefit obligation:

	<b>2013</b>	2012
	<b>£000</b>	£000
At 1 April	2,670	2,556
Current service cost	94	85
Interest cost	130	140
Actuarial losses / (gains)	426	(15)
Past service cost	-	-
Contributions by members	33	34
Benefits paid	(59)	(130)
	3,294	2,670
At 31 March	3,294	2,670

Movements in fair value of plan assets:

	<b>2013</b>	2012
	<b>£000</b>	£000
At 1 April	1,427	1,443
Expected return on plan assets	84	101
Actuarial gains / (losses)	134	(109)
Contributions by employer	82	88
Contributions by members	33	34
Benefits paid	(59)	(130)
	1,701	1,427
At 31 March	1,701	1,427

Expenditure recognised in the statement of financial activities:

	<b>2013</b>	2012
	<b>£000</b>	£000
Current service cost	(94)	(85)
Interest on defined benefit pension plan obligation	(130)	(140)
Expected return on defined benefit pension plan assets	84	101
Past service cost	-	-
	(140)	(124)
Total	(140)	(124)

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

	<b>2013</b>	2012
	<b>£000</b>	£000
Charitable activities – support costs	(140)	(124)
	(140)	(124)

The total amount recognised in the other recognised gains and losses section of the statement of financial activities is a loss £292,000 (2012: loss £94,000).

## Notes (continued)

### 13 Pension scheme (continued)

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

	2013 Fair value £000	2012 Fair value £000
Equities	1,395	1,156
Corporate bonds	136	114
Property	102	100
Cash	68	57
	<u>1,701</u>	<u>1,427</u>
Actual return on plan assets	<u>218</u>	<u>14</u>

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

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

	2013 %	2012 %
Discount rate	4.5	4.8
Expected rate of return on plan assets	5.3	5.8
Future salary increases	5.1	4.8
Inflation / pension increase rate	2.8	2.5

In valuing the liabilities of the pension fund at 31 March 2013, 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: 23 years (male), 25.8 years (female).

Future retiree upon reaching 65: 24.9 years (male), 27.7 years (female).

#### History of plans

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

##### Balance sheet

	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
Present value of scheme liabilities	(3,294)	(2,670)	(2,556)	(2,885)	(1,628)
Fair value of scheme assets	1,701	1,427	1,443	1,286	866
	<u>(1,593)</u>	<u>(1,243)</u>	<u>(1,113)</u>	<u>(1,599)</u>	<u>(762)</u>

**Notes** *(continued)*

**13 Pension scheme** *(continued)*

*Experience adjustments*

	2013 £000/%	2012 £000/%	2011 £000/%	2010 £000/%	2009 £000/%
Experience adjustments on scheme liabilities [as a percentage of scheme liabilities]	(47)/(1.4)	165/6.2	(7)/(0.3)	(7)/(0.2)	(86)/(5.3)
Experience adjustments on scheme assets [as a percentage of scheme assets]	134/7.9	(109)/(7.6)	(12)/(0.8)	300/23.3	(518)/59.8

The Trust expects to contribute approximately £77,000 to its defined benefit plans in the next financial year to 31 March 2014.

**14 Related parties**

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