

**Shetland Charitable Trust**

Trustees' report and consolidated  
financial statements

Charity number SC027025

31 March 2014

## Contents

Chair's introduction	1
Trustees' Report	2
Statement of trustees' responsibilities in respect of the Trustees' report and the financial statements	11
Independent auditor's report to the trustees of Shetland Charitable Trust	12
Consolidated statement of financial activities	13
Trust statement of financial activities	14
Consolidated balance sheet	15
Trust balance sheet	16
Consolidated cash flow statement	17
Notes to the consolidated cash flow statement	18
Notes to the financial statements	19

## Chair's introduction

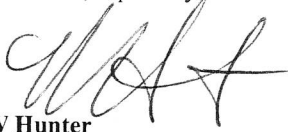
We have now completed the first full year of the newly constituted Shetland Charitable Trust which was created with a majority of independent Trustees and this has led to a new dynamic within the Trust.

The new committee structures have been established and are working well. Each committee has embarked on an appropriate work stream and will make recommendations in due course to the full Trust for consideration.

Shetland Leasing and Property Developments Limited (SLAP) and Viking Energy (VE) are now operating as entirely independent businesses. Shetland Heat Energy and Power Limited (SHEAP) is working towards a greater degree of autonomy. This we hope will ensure the continued successful gift aid from SLAP and SHEAP.

The Trust is now in the final year of a three year budget process and faces the challenge of balancing its income and expenditure. Currently much work is being done on reviewing income and establishing community need for expenditure.

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, especially the Chairs of the Committees and the Vice Chair, Jonathan Wills.



**R W Hunter**  
*Chair*

11 September 2014

## Trustees' Report

### *Section 1: Reference and Administrative Details*

**Name** Shetland Charitable Trust

**Scottish Charity Number** SC027025

**Address** 22-24 North Road, Lerwick, Shetland, ZE1 0NQ

#### **Trustees**

##### *Selected*

R W Hunter, Chair

E L Fullerton

C Hughson

I Kinniburgh

K I Massey

S M Morgan

I R 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)

**Chief Executive** Dr Ann Black

**Bankers** Bank of Scotland  
117 Commercial Street  
Lerwick  
ZE1 0DL

**Auditor** KPMG LLP  
37 Albyn Place  
Aberdeen  
AB10 1JB

#### **Solicitors -**

##### **Governance and Charity Law**

Turcan Connell  
Princes Exchange  
1 Earl Grey Street  
Edinburgh  
EH3 9EE

**Commercial** Maclay Murray & Spens LLP  
Quartermile One  
15 Lauriston Place  
Edinburgh  
EH3 9EP

#### **Investment Managers**

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

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

Schroders Property Managers  
31 Gresham Street  
London  
EC2V 7QA

## **Trustees' Report** *(continued)*

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

**Custodian**                      The Northern Trust Company  
50 Bank Street  
Canary Wharf  
London  
E14 5NT

**Investment  
Consultant**                      Hymans Robertson LLP  
20 Waterloo Street  
Glasgow  
G2 6DB

**Investment  
Monitor**                          The WM Company PLC  
525 Ferry Road  
Edinburgh  
EH5 2AW

### **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 five 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. This must all be in accordance with the Trust Deed and the law. The Chief Executive is also responsible for the effective management of the Trust's liquid resources with support from the accountant. This includes ensuring that charitable status is retained and putting in place effective investment policies. Some specialist services are purchased from other providers, under various service level agreements.

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

## Trustees' Report *(continued)*

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

#### **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 (Resigned 25 November 2013) William Manson
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<b>Shetland Heat Energy and Power Limited (SHEAP)</b>	Andrew Blackadder - Chair Martin Tregonning (Resigned 22 July 2014) Paul Clelland (Resigned 18 May 2014)
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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 (TM) Limited</b>	Keith Massey (appointed 23 May 2013)
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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.

<b>SCT Renewables Limited</b>	James Smith
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#### **Risk Management**

On 12 September 2013 Trustees reviewed the 33 risks which were previously identified as possibly impacting on the business of the Trust. In this review, two were classified as "red", 12 as "amber" and 19 as "green", depending on the likelihood of occurrence and the severity of the impact should it occur. The two red risks are in the areas of conflict of interests and compliance with charity law. Both areas have been considered within the recent governance review. The first, loss of charitable status, is seen as rare, but the consequences are so serious that it remains red. 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. The second concerns conflict of interest. Because Shetland is a small community, with people fulfilling many roles, it is a risk which cannot be eliminated. However, it has been significantly reduced with recent governance changes and can be managed appropriately.

#### **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.

## **Trustees' Report** *(continued)*

### **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.

#### **Grant Making Policy**

The Trust is primarily a strategic funding body providing funding for other organisations to carry out their charitable activities and only undertakes a small amount of "direct" charitable activity in the Shetland community itself. The Trust can only give grants or loans in furtherance of its charitable purposes narrated in the Trust Deed and where a benefit to the Shetland community is clearly demonstrable.

#### **Financial Objectives**

In the three year period ending on 31 March 2014, Trustees agreed that annual expenditure needed to be reduced by £1.2 million to £11 million to comply with the Trust's long term strategy of 'self sustainability', i.e. only spending the (average) growth in the fund after inflation, and so preserving the real value of the capital sum.

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

#### **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.

## Trustees' Report *(continued)*

### **Section 4: Achievements and Performance**

During the year to 31 March 2014, 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
- Peer Education Project

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 September 2013, 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 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
- Senior Citizen's Clubs
- Supported employment
- Rural Care Model
- Local Charitable Organisations
- Social Assistance Grants
- Bus Services Elderly and Disabled

Over the years, the Trust has invested in a range of community facilities and equipment and has in place a planned maintenance programme to ensure that the buildings, equipment and other assets are well maintained and in good condition. The facilities and assets include:

- leisure facilities in Unst, Yell, Brae, Aith, Whalsay, Scalloway and Sandwick
- the Clickimin Complex in Lerwick
- care centres in Unst, Yell, Whalsay, Brae, Walls and Levenwick
- the Garrison Theatre in Lerwick
- the new Museum and Archives in Lerwick
- Market House, the Voluntary Resource Centre in Lerwick
- various offices and other buildings for local charities
- The Swan, heritage sailing vessel

Details of the activities and performance of the Trust's subsidiary companies are provided in Section 5 of this report. In summary, SLAP and SHEAP have generated profits for the Trust in 2013/14. 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 £700,000 in 2013/14 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 5 full time equivalents in 2013/14.

The Trust, as a result of a report prepared by the Institute of Directors, undertook a process to separate its subsidiaries from the business of the Trust. SLAP is now a stand-alone commercial entity, governed by a board of directors who are tasked to generate a return for the Trust. SHEAP is making good progress on becoming a stand-alone company. As part of the process, the Trust has undertaken a review of its management and administration functions. This has resulted in a reduction in staffing and subsequent overhead costs for the Trust.



## Trustees' Report *(continued)*

### Section 4: Achievements and Performance *(continued)*

#### Charitable Expenditure

	2013/14 budget	Actual spend to 31 March 2014	2013 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	696,038
Shetland Recreational Trust	2,518,550	2,518,550	2,518,550
<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	54,055
Shetland Youth Information Service	-	-	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	144,368	144,367
Festival Grants	30,000	30,000	30,000
Local Charitable Organisations	14,000	11,552	10,552
Royal Voluntary Service	47,622	47,622	47,622
Peer education project	12,000	12,000	-
<b>Sub Total Organisations</b>	<b>5,044,083</b>	<b>5,041,636</b>	<b>5,217,475</b>

## Trustees' Report *(continued)*

### Section 4: Achievements and Performance *(continued)*

	2013/14 budget £	Actual spend to 31 March 2014 £	2013 spend £
<b><u>Schemes</u></b>			
Community Development Grants	8,852	6,951	5,250
Community Support Grants	77,741	77,703	76,349
Arts Grant Scheme	35,000	29,366	28,893
Sheltered Housing Heating	-	-	25,500
Senior Citizens Clubs	20,000	15,531	18,515
Support to Rural Care Model	2,491,000	2,491,000	2,491,000
Social Assistance Grants	5,000	1,032	5,497
Buses for Elderly and Disabled	49,980	49,980	49,980
Supported Employment	8,000	7,514	8,000
<b>Sub Total Schemes</b>	<b>2,695,573</b>	<b>2,679,077</b>	<b>2,708,984</b>
<b><u>Direct Schemes</u></b>			
Springfield	1,500	819	1,746
Christmas grant Scheme	432,000	382,026	415,936
Planned Maintenance	1,589,928	1,562,497	1,711,988
<b>Sub Total Direct Schemes</b>	<b>2,023,428</b>	<b>1,945,342</b>	<b>2,129,670</b>
<b><u>One-Off Projects</u></b>			
Scalloway Swimming Pool Roof	-	(413)	181,690
<b>Sub Total One-Off Projects</b>	<b>-</b>	<b>(413)</b>	<b>181,690</b>
Surplus Grants Refunded	-	(229,295)	(10,787)
<b>Sub-total charitable expenditure</b>	<b>9,763,084</b>	<b>9,436,347</b>	<b>10,227,032</b>
Trust Administration, including governance costs	539,760	693,699	527,399
<b>Total</b>	<b>10,302,844</b>	<b>10,130,046</b>	<b>10,754,431</b>

Total charitable expenditure and administration costs are shown before adjustment for pension adjustments under FRS 17 totalling £85,000, 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 £12.1 million was generated in 2013/14. This includes the growth in value of the investments as well as dividend income received. In addition, in 2013/14, around £2.6 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 2014) of the Trust's reserves that are invested to generate income (i.e. not the 'Donated Properties') is around £225 million, which covers current levels of expenditure for around 20 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

2013/14 was a good year for investment returns, achieving £14.7 million (about 6.9%). 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 2014, the Trust was above that target.

#### Stock Exchanges

As at 31 March 2014, three fund managers managed the Trust's Stock Exchanges portfolio. BlackRock Global Investors manage around £111 million invested in equities (shares), Insight Investment manage around £52 million in bonds, and Schrodgers Property Managers manage around £26 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 £2.1 million in 2013/14. The Board of Directors resolved to make a gift aid payment of £1.9 million to the Trust in the financial year 2013/14. 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 £0.6 million to the Trust in the financial year 2013/14.

SCT Renewables Limited is a 100% owned subsidiary of the Trust. The Trust has invested £6.4 million at 31 March 2014. It participates in the Viking Energy project which is investigating a very large wind farm project in central Shetland.

C.T. Shetland (T.M.) Limited does not trade. The purpose of the company is to register and own certification trademarks, for example, the knitwear trademark known as *the Shetland Lady*.

## Trustees' Report *(continued)*

### *Section 5: Financial Review (continued)*

#### **Decisions about Investments**

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

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

### *Section 6: Plans For The Future*

The Trust, through its committee structure, is currently reviewing its investments and disbursement strategies. This will help inform the financial strategy and budgets going forward.



**R W Hunter**  
*Chair*

11 September 2014

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

Under charity law, the Trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. Charity law requires the Trustees to prepare financial statements for each financial year. The group and charity's financial statements are required by law to give a true and fair view of the state of affairs of the group and the charity and of the groups and the charity's excess of expenditure over income for that period.

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

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

The trustees are required to act in accordance with the Trust Deed of the charity, within the framework of trust law. They are responsible for keeping proper accounting records, sufficient to disclose at any time, with reasonable accuracy, the financial position of the group and charity at that time, and to enable the trustees to ensure that, where any statements of accounts are prepared by them under section 44 (1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended) and the Trust Deed, those statements of accounts comply with the requirements of regulations under that provision. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and charity and to prevent and detect fraud and other irregularities.

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



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 2014 set out on pages 13 to 34. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

### Respective responsibilities of Trustees and auditor

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

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

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](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 2014 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*

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

16 September 2014

## Consolidated statement of financial activities

for the year ended 31 March 2014

	Note	Unrestricted funds		2014 Total £000	2013 Total £000
		General funds £000	Expendable endowment £000		
<b>Incoming resources</b>					
<i>Incoming resources from generated funds</i>					
Activities for generating funds – trading subsidiaries	6	4,501	-	4,501	5,221
Investment income		4,760	-	4,760	4,470
Donations		83	-	83	-
<i>Other incoming resources</i>					
Rental income		986	-	986	1,307
Other income		122	-	122	28
Total incoming resources		10,452	-	10,452	11,026
<b>Resources expended</b>					
<i>Cost of generating funds</i>					
Expenditure of trading subsidiaries	6	(2,756)	-	(2,756)	(6,525)
Investment management costs		(273)	-	(273)	(668)
Provision made against equity investment		(87)	-	(87)	-
<i>Charitable activities</i>	2	(10,112)	(1,206)	(11,318)	(11,986)
<i>Governance costs</i>	2	(103)	-	(103)	(90)
Total resources expended		(13,331)	(1,206)	(14,537)	(19,269)
<b>Net outgoing resources before other recognised gains and losses</b>		(2,879)	(1,206)	(4,085)	(8,243)
<b>Other recognised gains and losses</b>					
Gains on managed fund investments	5	-	7,377	7,377	17,559
Actuarial losses in defined benefit pension scheme	13	(117)	-	(117)	(292)
Realised (loss)/gain on revaluation of investment properties		(55)	-	(55)	20
<b>Net movement in funds</b>		(3,051)	6,171	3,120	9,044
Fund balances brought forward		505	225,417	225,922	216,878
<b>Fund balances carried forward</b>		(2,546)	231,588	229,042	225,922

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 2014

	Note	Unrestricted funds		2014	2013
		General funds £000	Expendable endowment £000	Total £000	Total £000
<b>Incoming resources</b>					
<i>Incoming resources from generated funds</i>					
Investment income		4,737	-	4,737	4,470
Gift aid receipts from subsidiary undertakings	6	2,555	-	2,555	6,458
Donations		83	-	83	-
<i>Other incoming resources</i>					
Rental income		986	-	986	1,307
Other income		173	-	173	28
<b>Total incoming resources</b>		<b>8,534</b>	<b>-</b>	<b>8,534</b>	<b>12,263</b>
<b>Resources expended</b>					
<i>Cost of generating funds</i>					
Investment management costs		(273)	-	(273)	(668)
Capital reduction in investment		-	-	-	-
Provision made against equity investment	6	(150)	-	(150)	(438)
<i>Charitable activities</i>	2	(10,112)	(1,206)	(11,318)	(11,986)
<i>Governance costs</i>	2	(103)	-	(103)	(90)
<i>Other resources expended</i>					
Interest payable on loan from subsidiary		-	-	-	(474)
<b>Total resources expended</b>		<b>(10,638)</b>	<b>(1,206)</b>	<b>(11,844)</b>	<b>(13,656)</b>
<b>Net outgoing resources before other recognised gains and losses</b>		<b>(2,104)</b>	<b>(1,206)</b>	<b>(3,310)</b>	<b>(1,393)</b>
<b>Other recognised gains and losses</b>					
Gains on managed fund investments	5	-	7,377	7,377	17,559
Actuarial losses in defined benefit pension scheme	13	(117)	-	(117)	(292)
<b>Net movement in funds</b>		<b>(2,221)</b>	<b>6,171</b>	<b>3,950</b>	<b>15,874</b>
<b>Total funds brought forward</b>		<b>(5,831)</b>	<b>225,417</b>	<b>219,586</b>	<b>203,712</b>
<b>Fund balances carried forward</b>		<b>(8,052)</b>	<b>231,588</b>	<b>223,536</b>	<b>219,586</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

as at 31 March 2014

	Note	2014 £000	2014 £000	2013 £000	2013 £000
<b>Fixed assets</b>					
Tangible assets	4		28,449		29,458
Investments:					
Investments	5	188,929		187,923	
Programme-related investments	6, 7	4,808		4,062	
			<u>193,737</u>		<u>191,985</u>
<b>Total fixed assets</b>			<u>222,186</u>		<u>221,443</u>
<b>Current assets</b>					
Stocks		59		48	
Debtors	8	2,412		2,305	
Cash at bank and in hand		8,060		7,337	
			<u>10,531</u>	<u>9,690</u>	
<b>Total current assets</b>		<u>10,531</u>		<u>9,690</u>	
<b>Creditors: amounts falling due within one year</b>	9	<u>(1,605)</u>		<u>(3,234)</u>	
<b>Net current assets</b>			<u>8,926</u>		<u>6,456</u>
<b>Total assets less current liabilities</b>			<u>231,112</u>		<u>227,899</u>
<b>Provisions for liabilities and charges</b>	10		<u>(275)</u>		<u>(296)</u>
<b>Creditors: amounts falling due outwith one year</b>			<u>-</u>		<u>(88)</u>
<b>Net assets excluding pension liability</b>			<u>230,837</u>		<u>227,515</u>
Pension liability	13		<u>(1,795)</u>		<u>(1,593)</u>
<b>Net assets including pension liability</b>			<u>229,042</u>		<u>225,922</u>
<b>Represented by:</b>					
Expendable endowment	11		231,588		225,417
Unrestricted income funds:	12				
General funds			(6,258)		(3,882)
Trading funds			5,361		5,779
Revaluation reserve			146		201
			<u>(751)</u>		<u>2,098</u>
Unrestricted income funds excluding pension reserve			<u>(1,795)</u>		<u>(1,593)</u>
Pension reserve	13				
<b>Total unrestricted income funds</b>			<u>(2,546)</u>		<u>505</u>
<b>Total group funds</b>			<u>229,042</u>		<u>225,922</u>

These financial statements were approved by the trustees on 11 September 2014 and were signed on their behalf by:

**R W Hunter**  
Chairman

**J W G Wills**  
Vice-Chairman

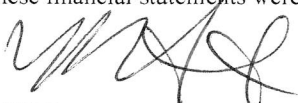
The notes on pages 19 to 34 form a part of these financial statements.

## Trust balance sheet

as at 31 March 2014

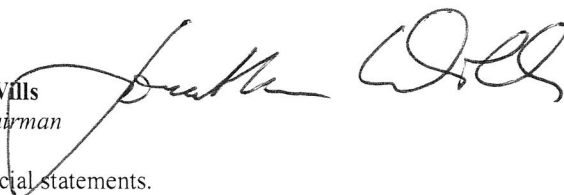
	Note	2014 £000	2014 £000	2013 £000	2013 £000
<b>Fixed assets</b>					
Tangible assets	4		7,199		8,405
Investments:					
Investments	5	188,929		187,923	
Programme-related investments	6, 7	22,768		39,793	
			<u>211,697</u>		<u>227,716</u>
<b>Total fixed assets</b>			<b>218,896</b>		<b>236,121</b>
<b>Current assets</b>					
Debtors	8	3,277		4,203	
Cash at bank and in hand		3,331		3,968	
			<u>6,608</u>	<u>8,171</u>	
<b>Total current assets</b>		<b>6,608</b>		<b>8,171</b>	
<b>Creditors:</b> amounts falling due within one year	9	(173)		(23,113)	
			<u>6,435</u>	<u>(14,942)</u>	
<b>Net current assets/(liabilities)</b>			<b>6,435</b>		<b>(14,942)</b>
<b>Net assets excluding pension liability</b>			<b>225,331</b>		<b>221,179</b>
Pension liability	13		(1,795)		(1,593)
			<u>223,536</u>		<u>219,586</u>
<b>Net assets including pension liability</b>			<b>223,536</b>		<b>219,586</b>
<b>Represented by:</b>					
Expendable endowment	11		231,588		225,417
Unrestricted income funds					
General funds	12		(6,257)		(4,238)
Pension reserve	13		(1,795)		(1,593)
			<u>(8,052)</u>		<u>(5,831)</u>
<b>Total unrestricted income funds</b>			<b>(8,052)</b>		<b>(5,831)</b>
<b>Total Trust funds</b>			<b>223,536</b>		<b>219,586</b>

These financial statements were approved by the trustees on 11 September 2014 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 2014*

	2014 £000	2014 £000	2013 £000	2013 £000
<b>Net cash outflow from operating activities</b>		<b>(8,574)</b>		<b>(10,233)</b>
<b>Returns on investment and servicing of finance</b>				
Investment income and interest received		4,760		4,470
<b>Capital expenditure and financial investment</b>				
Purchase of managed funds investments	(56,562)		(53,445)	
Purchase of tangible fixed assets	(1,055)		(2,371)	
Purchase of shares within joint venture	(746)		(1,145)	
Sale of managed funds investments	59,233		55,578	
		<hr/>	<hr/>	
<b>Net cash inflow/(outflow) from capital expenditure and financial investment</b>		<b>870</b>		<b>(1,383)</b>
<b>Management of liquid resources</b>				
Net movement in cash flows attributable to managed fund investments		282		(250)
Funds withdrawn/(deposited) from short term deposit (net)		3,385		6,479
		<hr/>		<hr/>
<b>Increase/(decrease) in cash in the year</b>		<b>723</b>		<b>(917)</b>
		<hr/> <hr/>		<hr/> <hr/>

## Notes to the consolidated cash flow statement

for the year ended 31 March 2014

<b>Reconciliation of net outgoing resources to net cash outflow from operating activities</b>	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Net outgoing resources before other recognised gains and losses	(4,085)	(8,243)
Loss on sale of fixed assets	41	115
Investment income and interest receivable	(4,760)	(4,470)
Depreciation and impairment of tangible fixed assets	2,001	1,387
Movement in pension liability, excluding actuarial gains and losses	85	58
(Increase)/decrease in stock	(11)	5
(Increase)/decrease in debtors	(107)	580
(Decrease)/increase in creditors	(1,717)	1,043
Decrease in provisions	(21)	(708)
	<hr/>	<hr/>
<b>Net cash outflow from operating activities</b>	<b>(8,574)</b>	<b>(10,233)</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Reconciliation of net cash flow to movement in net funds</b>	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Increase/(decrease) in cash in the year	723	(917)
Cash inflow from increase in liquid resources	183	2,823
	<hr/>	<hr/>
Change in net funds resulting from cash flows	906	1,906
Net funds at the start of the year	13,070	11,164
	<hr/>	<hr/>
Net funds at the end of the year	13,976	13,070
	<hr/> <hr/>	<hr/> <hr/>
<b>Net funds comprise:</b>		
Cash in hand held by investment managers	5,916	5,733
Cash at bank and in hand	8,060	7,337
	<hr/>	<hr/>
	<b>13,976</b>	<b>13,070</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 (i.e. there is no minimum level above which assets purchased are capitalised). Tangible fixed assets are capitalised at cost, with the exception of investment properties.

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

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

## Notes (continued)

### 1 Accounting policies (continued)

#### *Tangible fixed assets and depreciation (continued)*

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

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

#### *Investment properties*

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

#### *Taxation*

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

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

#### *Pension costs*

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

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

#### *Stock*

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

#### *Cash and liquid resources*

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

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

## Notes (continued)

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

#### Charitable expenditure

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

	2014 £000	2013 £000
<b>General funds</b>		
Payments to charitable organisations	5,041	5,217
Schemes	2,679	2,709
Direct schemes	1,945	2,130
One-off projects	-	182
Charitable grants repaid	(229)	(11)
	<hr/>	<hr/>
Total charitable grants	9,436	10,227
Support costs, excluding governance costs (below)	591	437
Pension adjustments under FRS 17	85	58
	<hr/>	<hr/>
Total charitable expenditure – general funds	10,112	10,722
	<hr/>	<hr/>
<b>Expendable endowment</b>		
Depreciation – see note 4	1,206	1,264
	<hr/>	<hr/>
<b>Total resources expended on charitable activities</b>	<b>11,318</b>	<b>11,986</b>
	<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 £591,000 (2013: £437,000) principally represent administration expenses and are all deemed to be attributable to the group's charitable activities. Included within administration expenses is £696,000 (2013: £588,000) in respect of staff costs (see note 3), of which £309,948 (2013: £328,378) was charged to subsidiaries.

#### Governance costs

Governance costs totalling £103,000 (2013: £90,000) comprise the costs associated with the Trust's compliance with charity regulation and good practice. They include £30,000 (2013: £55,000) representing an appropriate apportionment of salary costs, together with Trustees' expenses (note 3), and audit fees of £25,000 (2013: £17,000).

	Group and charity	
	Total 2014 £	Total 2013 £
Allocation of staff and support costs, including Trustees' allowance and expenses (see note 3)	30	55
Other costs	48	18
External auditor's remuneration:		
Audit of these financial statements	25	17
Audit of subsidiary undertakings (excluded from charitable governance costs)	18	20
Other services: taxation in relation to subsidiary undertakings	18	18
	<hr/>	<hr/>
<b>Total governance costs</b>	<b>103</b>	<b>90</b>
	<hr/> <hr/>	<hr/> <hr/>



## Notes (continued)

### 3 Staff numbers and costs

The group had an average of 11 employees during the year (2013: 13). The aggregate payroll cost of these employees was as follows:

	2014 £000	2013 £000
Wages and salaries	523	466
Social security costs	34	39
Pension costs / (credit)	139	83
	696	588
	696	588

Employee costs totalling £309,948 (2013: £328,378) were charged by Shetland Charitable Trust in respect of work performed by its subsidiary companies. Six employees worked wholly or mainly on Shetland Heat Energy and Powers Limited's activities during the year. One employee worked part-time on SCT Renewables Limited's activities during the year.

No employee (2013: one employee) received an emolument totalling between £60,000 and £69,999 and one employee (2013: one) 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 2013/14 totalled £12,324. 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 £nil (2013: £622) from the Trust and its group during the year. Expenses totalling £4,091 (2013: £4,449) were reimbursed to 6 trustees (2013: 14 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	25,494	17,137	16,740	865	4,427	64,663
Additions	-	-	10	-	1,045	1,055
Disposals	-	-	(41)	-	-	(41)
Revaluations	(12)	-	(10)	-	-	(22)
Transfers	-	-	1,035	-	(1,035)	-
	25,482	17,137	17,734	865	4,437	65,655
	25,482	17,137	17,734	865	4,437	65,655
<i>Depreciation</i>						
At beginning of year	21,817	12,356	-	422	610	35,205
Charge for year	1,001	217	-	34	749	2,001
	22,818	12,573	-	456	1,359	37,206
	22,818	12,573	-	456	1,359	37,206
<i>Net book value</i>						
At 31 March 2014	2,664	4,564	17,734	409	3,078	28,449
	2,664	4,564	17,734	409	3,078	28,449
At 31 March 2013	3,677	4,781	16,740	443	3,817	29,458
	3,677	4,781	16,740	443	3,817	29,458

**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 2014 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:

	<b>2014</b>	2013		
	<b>£000</b>	£000		
Plant and machinery, fixtures and fittings held by Shetland Heat Energy and Power Limited	<b>421</b>	415		
Assets under construction held by Shetland Leasing and Property Development Limited	<b>2,651</b>	3,402		
	<hr/> <hr/>	<hr/> <hr/>		
<b>Charity</b>				
	<b>Land and buildings</b>	<b>Donated Assets</b>	<b>District heating scheme infrastructure</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<i>Cost</i>				
At beginning and end of year	16,275	9,159	17,137	42,571
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At beginning of year	15,600	6,210	12,356	34,166
Charge for year	75	914	217	1,206
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	15,675	7,124	12,573	35,372
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 March 2014	<b>600</b>	<b>2,035</b>	<b>4,564</b>	<b>7,199</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2013	675	2,949	4,781	8,405
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**Notes** (continued)

**5 Managed funds**

<b>Group and Charity</b>	<b>2014 Market Value £000</b>	<b>2014 Cost £000</b>	<b>2013 Market Value £000</b>	<b>2013 Cost £000</b>
Listed investments:				
UK Government securities	18,540	18,538	21,524	20,356
Other UK fixed interest	19,662	17,870	19,799	17,623
Other Overseas fixed interest	8,946	6,972	6,509	4,166
	<u>47,148</u>	<u>43,380</u>	<u>47,832</u>	<u>42,145</u>
UK equities	55,097	42,318	56,372	45,255
Overseas equities	55,559	36,200	57,151	39,909
Property units	25,135	22,675	20,800	20,402
	<u>135,791</u>	<u>101,193</u>	<u>134,323</u>	<u>105,566</u>
Total investments	182,939	144,573	182,155	147,711
Cash on deposit and in hand	5,990	5,916	5,768	5,733
	<u>188,929</u>	<u>150,489</u>	<u>187,923</u>	<u>153,444</u>

	<b>2014 £000</b>	<b>2013 £000</b>
<i>Reconciliation of market value of investments</i>		
Market value at beginning of year	187,923	174,097
Investments purchased	56,562	53,445
Investments sold	(59,233)	(55,578)
Total realised gains on managed fund investments	3,959	15,709
Movement in investment managers' accrued income and expenses	(282)	250
	<u>188,929</u>	<u>187,923</u>

As at 31 March 2014, 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>2014 Market value £000</b>	<b>2014 Cost £000</b>	<b>2013 Market value £000</b>	<b>2013 Cost £000</b>
Insight Investment Management	52,627	48,786	52,242	46,520
BlackRock Global Investors	110,663	78,525	113,525	85,168
Schroders Property Managers	25,639	23,178	22,156	21,756
	<u>188,929</u>	<u>150,489</u>	<u>187,923</u>	<u>153,444</u>

**Notes** (continued)

**6 Programme-related investments**

	Group		Charity	
	2014 £000	2013 £000	2014 £000	2013 £000
Equity (below)	4,489	3,676	22,449	39,407
Loans (note 7)	319	386	319	386
	4,808	4,062	22,768	39,793
	4,808	4,062	22,768	39,793

Equity – Group	Shares in subsidiary undertakings £000	Unlisted investments £000	Total £000
<i>Cost</i>			
At beginning of year	4,032	626	4,658
Additions	900	-	900
	4,932	626	5,558
Cost at end of year	4,932	626	5,558
<i>Provisions</i>			
At beginning of year	356	626	982
Provided in year	87	-	87
	443	626	1,069
Provisions at end of year	443	626	1,069
<i>Net book value</i>			
At 31 March 2014	4,489	-	4,489
At 31 March 2013	3,676	-	3,676

Equity – Charity	Shares in subsidiary undertakings £000
<i>Cost</i>	
At beginning of year	41,220
Additions	1,192
Disposals	(18,000)
	24,412
Cost at end of year	24,412
<i>Provisions</i>	
At beginning of year	1,813
Provided in year	150
	1,963
Provisions at end of year	1,963
<i>Net book value</i>	
At 31 March 2014	22,449
At 31 March 2013	39,407

## 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:

	2014 SLAP £000	2014 SHEAP £000	2014 SCT R £000	2014 Total £000	2013 Total £000
<b>Turnover</b>	<b>2,194</b>	<b>2,307</b>	<b>-</b>	<b>4,501</b>	5,221
Cost of sales	(148)	(1,112)	-	(1,260)	(1,220)
<b>Gross profit</b>	<b>2,046</b>	<b>1,195</b>	<b>-</b>	<b>3,241</b>	4,001
Administration expenses	(168)	(687)	(8)	(863)	(1,038)
Gift aid payment to Shetland Charitable Trust	(1,956)	(599)	-	(2,555)	(6,458)
Deficit on revaluation of investment properties	(629)	-	-	(629)	(4,995)
Provision made against equity investment	-	-	(87)	(87)	-
<b>Operating loss</b>	<b>(707)</b>	<b>(91)</b>	<b>(95)</b>	<b>(893)</b>	(8,490)
Loss on disposal of investment properties	(4)	-	-	(4)	(28)
Interest receivable and similar income	16	5	2	23	492
<b>Loss on ordinary activities before taxation</b>	<b>(695)</b>	<b>(86)</b>	<b>(93)</b>	<b>(874)</b>	(8,026)
Tax on loss on ordinary activities	-	21	-	21	708
<b>Loss on ordinary activities after taxation being loss for the financial year</b>	<b>(695)</b>	<b>(65)</b>	<b>(93)</b>	<b>(853)</b>	(7,318)

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

	2014 Total £000	2013 Total £000
Cost of sales	1,264	1,220
Administration expenses	863	1,392
Investment property valuation deficit	629	4,639
Tax (credit) charge on profit on ordinary activities	-	(708)
Interest receivable and similar income	-	(18)
	<b>2,756</b>	<b>6,525</b>

## Notes (continued)

### 6 Programme-related investments (continued)

Included within the companies' profit (loss) for the year is a total of £2,554,542 (2013: £6,458,005) 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:

	2014 SLAP £000	2014 SHEAP £000	2014 SCT R £000	2014 Total £000	2013 Total £000
Tangible fixed assets	20,830	421	-	21,251	21,053
Investments	-	-	4,489	4,489	3,676
Current assets	4,601	1,327	21	5,949	27,392
Current liabilities	(2,663)	(738)	(5)	(3,406)	(5,994)
Creditors: amounts due after one year	(255)	(41)	-	(296)	(370)
<b>Total net assets</b>	<b>22,513</b>	<b>969</b>	<b>4,505</b>	<b>27,987</b>	<b>45,757</b>
Called up share capital	17,000	1,000	6,412	24,412	41,220
Profit and loss account	146	(31)	(1,907)	(1,792)	4,210
Revaluation reserve	5,367	-	-	5,367	327
<b>Total reserves</b>	<b>22,513</b>	<b>969</b>	<b>4,505</b>	<b>27,987</b>	<b>45,757</b>

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

	2014 £000	2013 £000
<b>Group and charity</b>		
Agricultural Ten Year Loan Scheme	372	439
Provisions for doubtful debts	(53)	(53)
	<b>319</b>	<b>386</b>

**Notes** (continued)

**8 Debtors**

	Group		Charity	
	2014 £000	2013 £000	2014 £000	2013 £000
Trade debtors	730	981	2	85
Amounts owing from subsidiary undertakings	-	343	2,027	3,154
Prepayments and accrued income	1,300	643	867	626
Other debtors:				
VAT recoverable	1	-	-	-
Programme-related loans	381	338	381	338
	<u>2,412</u>	<u>2,305</u>	<u>3,277</u>	<u>4,203</u>

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

	Group		Charity	
	2014 £000	2013 £000	2014 £000	2013 £000
Trade creditors	1,036	822	51	34
Rents in advance	80	67	-	-
Other tax and social security	40	94	21	39
Other creditors and accruals	449	572	101	540
Amounts owing to subsidiary undertakings	-	-	-	22,500
Amounts owing to partnership interest	-	1,679	-	-
	<u>1,605</u>	<u>3,234</u>	<u>173</u>	<u>23,113</u>

An unsecured loan of £22,500,000 owing at 31 March 2013 from Shetland Leasing and Property Developments Limited was fully repaid in the year.

**10 Provisions for liabilities and charges**

Group	Deferred taxation £000
At beginning of year	296
Credit for the year	(14)
Effect of increased tax rates	(7)
At end of year	<u>275</u>

The deferred tax liability arising within the Trust's subsidiary companies at the year end of £275,000 (2013: £296,000) is analysed as follows:

	2014 £000	2013 £000
Accelerated capital allowances	149	153
Other timing differences: Gift aid	126	143
	<u>275</u>	<u>296</u>

**Notes** *(continued)*

**11 Expendable endowment**

	<b>Group Total £000</b>	<b>Charity Total £000</b>
At beginning of year	225,417	225,417
Outgoing resources	(1,206)	(1,206)
Gains in the year	7,377	7,377
	<b>231,588</b>	<b>231,588</b>
	<b>231,588</b>	<b>231,588</b>

**12 Unrestricted income funds**

	<b>Group</b>	<b>General funds £000</b>	<b>Trading funds £000</b>	<b>Pension reserve £000</b>	<b>Revaluation reserve £000</b>	<b>Total unrestricted income funds £000</b>
At beginning of year		(3,882)	5,779	(1,593)	201	505
Net movement in funds		(2,376)	(418)	(85)	(55)	(2,934)
Actuarial losses		-	-	(117)	-	(117)
		<b>(6,258)</b>	<b>5,361</b>	<b>(1,795)</b>	<b>146</b>	<b>(2,546)</b>
		<b>(6,258)</b>	<b>5,361</b>	<b>(1,795)</b>	<b>146</b>	<b>(2,546)</b>

		<b>General funds £000</b>	<b>Pension reserve £000</b>	<b>Total unrestricted income funds £000</b>
<b>Charity</b>				
At beginning of year		(4,238)	(1,593)	(5,831)
Net incoming resources before other recognised gains and losses		(2,019)	(85)	(2,104)
Actuarial losses		-	(117)	(117)
		<b>(6,257)</b>	<b>(1,795)</b>	<b>(8,052)</b>
		<b>(6,257)</b>	<b>(1,795)</b>	<b>(8,052)</b>

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



## Notes (continued)

### 13 Pension scheme

The Trust participates in the Shetland Islands Council Pension Fund which provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Trust. The information disclosed below is in respect of the Trust's share of the assets and liabilities throughout the periods shown.

The latest full actuarial valuation was carried out at 31 March 2011 and was updated for FRS 17 purposes to 31 March 2014 by a qualified independent actuary.

	<b>2014</b>	2013
	<b>£000</b>	£000
Present value of funded defined benefit obligations	<b>(3,534)</b>	(3,165)
Fair value of plan assets	<b>1,873</b>	1,701
	<hr/>	<hr/>
Present value of unfunded defined benefit obligations	<b>(1,661)</b>	(1,464)
	<b>(134)</b>	(129)
	<hr/>	<hr/>
Net liability	<b>(1,795)</b>	(1,593)
	<hr/> <hr/>	<hr/> <hr/>

#### Movements in present value of defined benefit obligation:

	<b>2014</b>	2013
	<b>£000</b>	£000
At 1 April	3,294	2,670
Current service cost	102	94
Interest cost	150	130
Actuarial losses	144	426
Losses on curtailments	63	-
Contributions by members	28	33
Benefits paid	(113)	(59)
	<hr/>	<hr/>
At 31 March	3,668	3,294
	<hr/> <hr/>	<hr/> <hr/>

#### Movements in fair value of plan assets:

	<b>2014</b>	2013
	<b>£000</b>	£000
At 1 April	1,701	1,427
Expected return on plan assets	91	84
Actuarial gains	27	134
Contributions by employer	139	82
Contributions by members	28	33
Benefits paid	(113)	(59)
	<hr/>	<hr/>
At 31 March	1,873	1,701
	<hr/> <hr/>	<hr/> <hr/>

**Notes** *(continued)*

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

Expenditure recognised in the statement of financial activities:

	<b>2014</b>	2013
	<b>£000</b>	£000
Current service cost	(102)	(94)
Interest on defined benefit pension plan obligation	(150)	(130)
Expected return on defined benefit pension plan assets	91	84
Past service cost	(63)	-
	<hr/>	<hr/>
Total	(224)	(140)
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>2014</b>	2013
	<b>£000</b>	£000
Charitable activities – support costs	(224)	(140)
	<hr/> <hr/>	<hr/> <hr/>

The total amount recognised in the other recognised gains and losses section of the statement of financial activities is a loss £117,000 (2013: loss £292,000).

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

	<b>2014</b>	2013
	<b>Fair value</b>	Fair value
	<b>£000</b>	£000
Equities	1,498	1,395
Corporate bonds	169	136
Property	131	102
Cash	75	68
	<hr/>	<hr/>
	1,873	1,701
	<hr/> <hr/>	<hr/> <hr/>
Actual return on plan assets	118	218
	<hr/> <hr/>	<hr/> <hr/>

## Notes (continued)

### 13 Pension scheme (continued)

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

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

	2014	2013
	%	%
Discount rate	4.3	4.5
Expected rate of return on plan assets	6.2	5.3
Future salary increases	5.1	5.1
Inflation / pension increase rate	2.8	2.8

In valuing the liabilities of the pension fund at 31 March 2014, 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

	2014	2013	2012	2011	2010
	£000	£000	£000	£000	£000
Present value of scheme liabilities	(3,668)	(3,294)	(2,670)	(2,556)	(2,885)
Fair value of scheme assets	1,873	1,701	1,427	1,443	1,286
Deficit	(1,795)	(1,593)	(1,243)	(1,113)	(1,599)

#### Experience adjustments

	2014	2013	2012	2011	2010
	£000/%	£000/%	£000/%	£000/%	£000/%
Experience adjustments on scheme liabilities/as a percentage of scheme liabilities	-/-	(47)/(1.4)	165/6.2	(7)/(0.3)	(7)/(0.2)
Experience adjustments on scheme assets/as a percentage of scheme assets	27/(1.4)	134/7.9	(109)/(7.6)	(12)/(0.8)	300/23.3

The Trust expects to contribute approximately £54,000 to its defined benefit plans in the next financial year to 31 March 2015.

**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.