



Shetland Charitable Trust

Chief Executive: Dr Ann Black

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Shetland
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If calling please ask for
Edna Flaws
Direct Dial: 01595 744994

Our Ref: EM/TA48

Date: 3 September 2018

Dear Sir/Madam

**Annual General Meeting of Shetland Charitable Trust
Room 9, Islesburgh Complex, Lerwick, Shetland
Tuesday 11 September 2018 at 6.30pm**

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

Yours faithfully

(signed) Dr Ann Black
Chief Executive

AGENDA

1. Welcome and Introduction.
2. Apologies.
3. Confirm minutes of meeting held on 14 September 2017.
4. Trustees Report and Financial Statements to 31 March 2018. Copy to follow.
5. AGM 2019: Date to be confirmed.



Shetland Charitable Trust

**Trustees' report and consolidated
financial statements**

Charity number SC027025

31 March 2018

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Chair's Introduction

This year has seen significant changes in the Board following the implementation of the new governance arrangements. Following the Local Government Elections in May 2017, Shetland Islands Council choose not to appoint Trustees to the Board. We have been successful in recruiting and appointing five new Selected Trustees, who bring fresh energy and experience to the Board.

The Trust's three Advisory Committees met regularly throughout the year. The Investment Advisory Committee continued to monitor the performance of the Trust's new Investment Strategy and the Subsidiary Companies. The Trust introduced a new investment strategy in 2016. This resulted in the appointment of a diversified growth manager and an active equity manager where 10% and 37.5% respectively, of the Trust's reserves were invested. The remaining assets continue to be invested in passive equities (37.5%) and property (15%). The Committee have instigated a review of external investments to consider the changes that have taken place in relative split of assets between managers, since the introduction of the strategy.

The General Purposes Advisory Committee reviewed the Trust's Public Relations Policy and commissioned two short films on the Shetland Befriending Service and Disability Shetland, highlighting the impact these funded organisations have on the quality of life in Shetland. The Committee received presentations from a number of funded organisations and monitored the service performance of all the Trust's grant recipients.

Finally, the Audit and Governance Advisory Committee, implemented the changes in governance arrangements, approved by the Trustees in May 2016. The Committee oversaw two separate recruitments processes for the appointment of new Trustees., These joined the Board in June 2017 and June 2018 respectively. The Committee also undertook a complete review of the Trust's strategic risks and oversaw the implementation of the new GDPR regulations.

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

As this will be my last annual report as Trustee and Chair, I would also like to take the opportunity to thank all staff and Trustees, past and present, for their commitment and support. I wish the Trust continued success in the future and I am sure that it is in good hands.

R W Hunter
Chair

11 September 2018

Trustees' Report

Section 1: Reference and Administrative Details

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

Selected

R W Hunter, Chair
 A B Cooper, Vice Chair
 T Macintyre
 P Malcolmson
 K I Massey
 I R Napier
 J L B Smith
 G Hay (Appointed 4 June 2017)
 W A Ratter (Appointed 4 June 2017)
 M I Roberts (Appointed 4 June 2017)
 J Garriock (Appointed 14 June 2018)
 Y Hopkins (Appointed 14 June 2018)

Appointed by Shetland Islands Council

M J Bell (Retired 4 June 2017)
 A G L Duncan (Retired 4 June 2017)
 R S Henderson (Retired 4 June 2017)
 A I Manson (Retired 4 June 2017)
 W A Ratter (Retired 4 June 2017)
 A J Westlake (Retired 4 June 2017)

Chief Executive Dr Ann Black

Bankers Bank of Scotland
 117 Commercial Street
 Lerwick
 ZE1 0DL

Auditor KPMG LLP
 319 St Vincent Street
 Glasgow
 G2 5AS

Solicitors -

Governance and Charity Law	Turcan Connell Princes Exchange 1 Earl Grey Street Edinburgh EH3 9EE	Commercial	Maclay Murray & Spens LLP Quartermile One 15 Lauriston Place Edinburgh EH3 9EP
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**Investment
Managers** Insight Investment Management (Global) Limited
 160 Queen Victoria Street,
 London,
 EC4V 4LA

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

Schroders Property Managers
 31 Gresham Street
 London
 EC2V 7QA

Trustees' Report *(continued)*

Section 1: Reference and Administrative Details (continued)

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

Section 2: Structure, Governance and Management

Governing Document

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

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

Charitable Status

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

Trustees – Appointment, Induction and Training

The Trust was 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. From 4 June 2017, following the review of governance, the Trust was made up of eleven appointed Trustees recommended by a selection panel and appointed by the Trustees, and four Councillor Trustees appointed by, Shetland Islands Council. Shetland Islands Council decided not to appoint Councillor Trustees to the Trust. Following a further, review of governance, the Trust will be made up of twelve appointed Trustees recommended by a selection panel and appointed by the Trustees.

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

Management and Administration

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

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

Trustees' Report *(continued)*

Minutes

The public minutes of all meetings of the Trustees, together with the relevant reports, may be inspected during office hours, at the Trust's office at 22-24 North Road, Lerwick. The public minutes are also available electronically through the Trust's website.

Subsidiary Companies

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

Shetland Leasing and Property Developments Limited (SLAP)	Michael Thomson – Chair William Manson Susan Groat (Resigned 31 March 2018) Brian Anderson (Appointed 15 January 2018) Colin Clark (Appointed 15 January 2018)
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Shetland Heat Energy and Power Limited (SHEAP)	James Armitage - Chair Allan Wishart Simon Collins Derek Leask Garry Tait Wendy Grant (Appointed 15 June 2018)
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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.

C. T. Shetland (TM) Limited	Keith Massey
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SCT Renewables Limited has a 90% interest in Viking Energy Shetland LLP 'the Shetland Partner' in the Viking Energy Partnership.

SCT Renewables Limited	James Smith
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Risk Management

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

As a result of this review, a new Risk Management Assessment was presented to Trustees on 14 September 2017. The five strategic key risks are:

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

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

Trustees' Report *(continued)*

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

Disclosure of information to auditor

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

Section 3: Objectives and Activities

Priorities

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

- contribute to a balanced provision of public services within Shetland
- support services to people in need
- support services for the elderly
- support services for children and young people
- contribute to maintaining and developing Shetland's environment

Strategic Partnerships

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

In furtherance of its charitable activities set out in the Trust Deed, the Trust endeavours to "top up" public services, in line with the community's needs, which are complementary to those provided by national and local taxation.

The Trust wishes to ensure that the charitable activities it carries out are appropriate and complementary to those activities carried out by other community and public bodies. Rather than employ people who are experts in particular fields, the Trust seeks advice from appropriate professional bodies as to what activities it might carry out for the public benefit of the inhabitants of Shetland.

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

Grant Making Policy

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

Financial Objectives

Trustees have agreed to continue with the long-term financial strategy of passing the "pot" on to future generations, and so limiting annual expenditure to the average growth on the investments above inflation.

In 2015, Trustees approved a new Financial Plan to run from 1 April 2016 to 31 March 2020. The aim of this plan is to reduce the expenditure of the Trust to £8.5 million by 2020. It was felt that the maximum expenditure of £11 million in the previous financial plan did not allow the Trust to be sustainable. A budget of £9.3m has been set for the year to 31 March 2019 in line with the new Financial Plan.

Trustees' Report (continued)

Section 3: Objectives and Activities (continued)

Budgets

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

Section 4: Achievements and Performance

During the year to 31 March 2018, the Trust provided grant assistance to the following organisations towards the cost of providing a range of social, leisure, cultural, heritage and environmental activities:

- Citizens Advice Bureau
- COPE Ltd
- Disability Shetland
- Festivals: Folk Festival
- Royal Voluntary Service
- Shetland Link-up
- Shetland Amenity Trust
- Rural Care Model
- Shetland Arts Development Agency
- Shetland Befriending Scheme
- Shetland Churches Council Trust
- Festivals: Fiddle and Accordion
- Voluntary Action Shetland
- Shetland Recreational Trust
- The Swan Trust
- Bus Service for the Elderly and Disabled

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

The Trust has worked with the organisations funded to develop a system of service performance reporting. Trustees considered a progress report on service performance in September 2015, which set out, in detail, how the Trust's money makes a difference to people and communities. On the whole, Trustees were satisfied that most organisations were performing satisfactorily against their stated targets, and there were no significant areas of concern.

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

- Arts Grant Aid Scheme
- Senior Citizen's Clubs
- Local Charitable Organisations

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

- Leisure facilities in Unst, Yell, Brae, Aith, Whalsay, Scalloway and Sandwick
- The Clickimin Complex in Lerwick
- Care centres in Unst, Yell, Whalsay, Brae, Walls and Levenwick
- The Garrison Theatre in Lerwick
- The new Museum and Archives in Lerwick
- Market House, the Voluntary Resource Centre in Lerwick
- Various offices and other buildings for local charities

Details of the activities and performance of the Trust's subsidiary companies are provided in Section 5 of this report. In summary, SLAP generated profits for the Trust in 2017/18 and SHEAP returned a loss. The rental from the land at the Sullom Voe terminal also made a contribution.

Trustees' Report *(continued)*

Section 4: Achievements and Performance *(continued)*

Charitable Expenditure

	2017/18 budget £	Actual spend to 31 March 2018 £	2017 spend £
<u>Grants over £0.5m</u>			
Shetland Amenity Trust	1,235,102	1,235,102	1,281,159
Shetland Arts Development Agency	664,426	664,426	694,878
Shetland Recreational Trust	3,193,176	3,193,176	3,303,363
Support to Rural Care Model	2,196,844	2,196,844	-
<u>Other Revenue Grants</u>			
Disability Shetland Recreation Club	12,641	12,641	12,641
The Swan Trust	35,825	35,825	53,738
Shetland Churches Council Trust	27,002	27,002	40,503
Shetland Befriending Scheme	54,418	54,418	54,418
Citizens Advice Bureau	132,265	132,265	132,265
COPE Limited	154,967	154,967	154,967
Shetland Link Up	47,994	47,994	47,994
Voluntary Action Shetland	144,361	144,361	144,361
Festival Grants	15,000	15,000	22,500
Local Charitable Organisations	14,000	11,552	11,552
Buses for Elderly and Disabled	46,232	46,232	-
Royal Voluntary Service	46,985	46,985	46,985
Sub Total Organisations	8,021,238	8,018,790	6,001,324

Trustees' Report *(continued)*

Section 4: Achievements and Performance (continued)

	2017/18 budget £	Actual spend to 31 March 2018 £	2017 spend £
Schemes			
Arts Grant Scheme	25,000	8,008	10,586
Senior Citizen's Clubs	15,000	7,600	12,598
Support to Rural Care Model	-	-	2,302,172
Buses for Elderly and Disabled	-	-	48,106
Sub Total Schemes	40,000	15,608	2,373,462
Surplus Grants Refunded	-	(1,346)	(4,597)
Sub-total charitable expenditure	8,061,238	8,033,052	8,370,189
Trust Administration, including governance costs	662,821	511,843	647,268
Total	8,724,059	8,544,895	9,017,457

Total charitable expenditure and administration costs are shown before adjustment for pension adjustments under FRS 102 totalling £76,000.

From 1 April 2017, Support to Rural Care Model and Buses for Elderly and Disabled disbursements were made by the way of grant payments rather than under the Scheme arrangements.

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 £27 million was generated in 2017/18. This includes growth in value of the investments as well as dividend income received. In 2017/18, around £2.8 million income was derived from investments in Shetland, valued at around £28 million. These investments are in SLAP, the land at Sullom Voe Terminal and the District Heating Scheme infrastructure.

The Trust Deed does not require the Trust to distinguish between revenue and capital (income or expenditure), and all of the Trust's funds are 'unrestricted' (see below). These two things together mean that although the general funds are shown as being in deficit in the financial statements, there are no practical consequences flowing from this.

Reserves Policy

The policy of the Trustees is to invest the reserves of the Trust to generate income to support charitable expenditure and to maintain the real value of the reserves in the long term. The current value (as at 31 March 2018) of the Trust's reserves that are invested to generate income (i.e. not the 'Donated Properties') is around £284 million. Trustees seek to minimise risk through diversification within its investments and take advice, as appropriate, in determining the mix of asset types in its investments. None of the Trust's funds are for restricted purposes. Trustees are free to determine how to apply their Unrestricted Reserves in a manner consistent with the Trust objectives and in line with its Budget Strategy.

Investments

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

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

2017/18 was a good year for investment returns, achieving total returns of £27 million (about 11.7%).

Stock Exchanges

As at 31 March 2018, four fund managers managed the Trust's Stock Exchanges portfolio. BlackRock Global Investors manage around £81.2 million invested in passive equities (shares), Baillie Gifford & Co. manage around £108.0 million invested in active equities (shares), Insight Investment manage around £23.5 million in a diversified growth fund, and Schroders Property Managers manage around £38.7 million in commercial property.

Cash on Deposit

The Trust has entered into a Service Level Agreement with Shetland Islands Council whereby the Trust has access to the money markets at a level which it may not have been able to achieve on its own.

Subsidiary Companies

Shetland Leasing and Property Developments Limited (SLAP) is a wholly owned subsidiary of the Trust. Its main activity is the purchasing, developing and letting of about 30 properties throughout Shetland. SLAP gift aids its profits to the Trust. The property portfolio is valued at £17.0 million and it generated rental income of over £2.3 million in 2017/18. The Board of Directors resolved to make a gift aid payment of £2.1 million to the Trust in the financial year 2017/18. This mechanism means that neither body pays tax on the profits.

Shetland Heat Energy and Power Limited (SHEAP) is a wholly owned subsidiary of the Trust, set up to operate the Lerwick District Heating Scheme. SHEAP has over 1200 customers receiving heat and it generated income of over £2.5 million in 2017/18. SHEAP recorded a loss in 2017/18 and as a result no gift aid payment will be made to the Trust in the financial year 2017/18.

SCT Renewables Limited is a 100% owned subsidiary of the Trust. The Trust has invested £9.3 million at 31 March 2018. Viking Energy Shetland LLP is a 90% owned subsidiary of SCT Renewables Limited. It participates in the Viking Energy project which is investigating a very large wind farm project in central Shetland.

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

Trustees' Report *(continued)*

Section 5: Financial Review *(continued)*

Decisions about Investments

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

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

Section 6: Plans For The Future

The Trust is currently concentrating on the financial sustainability of the Trust. The Financial Plan which has been approved aims to reduce expenditure to £8.5 million by 2020.

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

Finally, the Trust undertook a review of its Governance by 2018 as was agreed when the Trust was reconstituted. This review has progressed during the year and the recommendations have been approved Trustees and OSCR. The governance changes will be implemented during 2018/19.

R W Hunter
Chair

2018

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

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

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

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

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

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

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

Opinion

We have audited the group and charity financial statements (the 'financial statements') of Shetland Charitable Trust for the year ended 31 March 2018 set out on pages 14 to 37. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent charity's affairs as at 31 March 2018 and of the group's net movement in funds for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of matter – material uncertainty relating to the valuation of an investment property

We draw attention to note 4 of the financial statements which describes the uncertainties relating to the valuation of an investment property of £1.6m. The directors of a wholly owned subsidiary company are currently negotiating with the tenant over the rent that the tenant will pay and the final amount agreed could have a material impact on the total investment property balance of £17m disclosed in the financial statements at 31 March 2018. The ultimate outcome of the matter cannot presently be determined and no impairment that may result has been made in the financial statements. Our opinion is not modified in respect of this matter.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Trustees' report

The trustees are responsible for the trustees' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the Trustees' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in Trustees' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has 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

Under the Charities Accounts (Scotland) Regulations 2006 (as amended), we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Charity, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Charity's 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.

We have nothing to report in these respects.

Trustees' responsibilities

As explained more fully in their statement set out on page 11, the trustees are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent charity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the charity's members, as a body, in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audit work has been undertaken so that we might state to the charity's members 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 the charity's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Bruce Marks
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

11 September 2018

Consolidated statement of financial activities

for the year ended 31 March 2018

	Note	Unrestricted funds		2018 Total £000	2017 Total £000
		General funds £000	Expendable endowment £000		
Income and endowments from					
Other trading activities	6	4,929	-	4,929	4,685
Investments		3,387	-	3,387	3,499
Rental income		757	-	757	907
Other income	2	15	-	15	2
Total income and endowments		9,088	-	9,088	9,093
Expenditure on					
Expenditure on raising funds	6	(3,651)	-	(3,651)	(2,809)
Investment Management		(938)	-	(938)	(745)
Provision made against equity investment	6	-	-	-	(89)
Charitable activities	2	(8,621)	(170)	(8,791)	(9,359)
Total expenditure		(13,210)	(170)	(13,380)	(13,002)
Net gains/(losses) on investments	12	-	23,558	23,558	35,516
Net income/(expenditure)		(4,122)	23,388	19,266	31,607
Other recognised gains and losses					
Actuarial (losses)/gains in defined benefit pension scheme	17	354	-	354	(602)
Net movement in funds		(3,768)	23,388	19,620	31,005
Fund balances brought forward	13, 12	(11,093)	280,046	268,953	237,948
Fund balances carried forward		(14,861)	303,434	288,573	268,953

All funds are unrestricted income funds. The incoming resources and resulting net movement in funds all arose from continuing operations. All gains and losses recognised in the year are included above.

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

Trust statement of financial activities
for the year ended 31 March 2018

	<i>Note</i>	Unrestricted funds		2018	2017
		General funds £000	Expendable endowment £000	Total £000	Total £000
Income and endowments from					
Income from investments		3,387	-	3,387	3,499
Other trading activities (Gift Aid receipts from subsidiary undertakings)	6	2,083	-	2,083	2,186
Rental income		757	-	757	907
Other income		5	-	5	2
Total income and endowments		6,232	-	6,232	6,594
Expenditure on:					
Expenditure on raising funds		(938)	-	(938)	(745)
Provision made against equity investment	6	(111)	-	(111)	(94)
Charitable activities	2	(8,621)	(170)	(8,791)	(9,359)
Total expenditure		(9,670)	(170)	(9,840)	(10,198)
Gains/(Losses) on investment assets	12	-	23,558	23,558	35,516
Net income/(expenditure)		(3,438)	23,388	19,950	31,912
Other recognised (losses)/gains					
Actuarial losses in defined benefit pension scheme	17	354	-	354	(602)
Net movement in funds		(3,084)	23,388	20,304	31,310
Total funds brought forward	13,12	(15,931)	280,046	264,115	232,805
Fund balances carried forward		(19,015)	303,434	284,419	264,115

All funds are unrestricted income funds. The incoming resources and resulting net movement in funds all arose from continuing operations. All gains and losses recognised in the year are included above.

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

Consolidated balance sheet

as at 31 March 2018

	Note	2018 £000	2018 £000	2017 £000	2017 £000
Fixed assets					
Tangible assets	4		22,181		22,789
Investments	5	251,374		231,189	
Programme-related investments	6, 7	5,521		7,108	
			<u>256,895</u>		<u>238,297</u>
Total fixed assets			<u>279,076</u>		<u>261,086</u>
Current assets					
Stocks		32		41	
Debtors	8	1,905		1,102	
Cash at bank and in hand	9	11,763		10,302	
			<u>13,700</u>		<u>11,445</u>
Creditors: amounts falling due within one year	10	(1,781)		(1,637)	
Net current assets			<u>11,919</u>		<u>9,808</u>
Total assets less current liabilities			<u>290,995</u>		<u>270,894</u>
Provisions for liabilities and charges	11		-		(2)
Net assets excluding pension liability			<u>290,995</u>		<u>270,892</u>
Pension liability	17		(1,661)		(1,939)
Net assets including pension liability			<u>289,334</u>		<u>268,953</u>
Represented by:					
Expendable endowment	12		303,434		280,046
Unrestricted income funds:	13				
General funds			(17,354)		(13,992)
Trading funds			3,743		4,427
Revaluation reserve			411		411
			<u>(13,200)</u>		<u>(9,154)</u>
Unrestricted income funds excluding pension reserve			(1,661)		(1,939)
Pension reserve	13		(1,661)		(1,939)
Total unrestricted income funds	13		<u>(14,861)</u>		<u>(11,093)</u>
Non-controlling interest			761		-
Group funds attributable to the Charity			<u>288,573</u>		<u>268,953</u>
Total group funds			<u>289,334</u>		<u>268,953</u>

These financial statements were approved by the trustees on 11 September 2018 and were signed on their behalf by:

R W Hunter
Chair

K I Massey
Trustee

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

Trust balance sheet

as at 31 March 2018

	Note	2018 £000	2018 £000	2017 £000	2017 £000
Fixed assets					
Tangible assets	4		323		493
Investments	4,5	251,374		231,189	
Programme-related investments	6, 7	27,478		27,599	
			<u>278,852</u>		<u>258,788</u>
Total fixed assets			<u>279,175</u>		<u>259,281</u>
Current assets					
Debtors	8	2,895		2,411	
Cash at bank and in hand		4,335		4,617	
			<u>7,230</u>	<u>7,028</u>	
Total current assets		<u>7,230</u>		<u>7,028</u>	
Creditors: amounts falling due within one year	10	<u>(325)</u>		<u>(255)</u>	
Net current assets			<u>6,905</u>		<u>6,773</u>
Net assets excluding pension liability			<u>286,080</u>		<u>266,054</u>
Pension liability	17		<u>(1,661)</u>		<u>(1,939)</u>
Net assets including pension liability			<u>284,419</u>		<u>264,115</u>
Represented by:					
Expendable endowment	12		303,434		280,046
Unrestricted income funds:					
General funds	13		(17,354)		(13,992)
Pension reserve	13		(1,661)		(1,939)
			<u>(19,015)</u>		<u>(15,931)</u>
Total unrestricted income funds	13		<u>(19,015)</u>		<u>(15,931)</u>
Total Trust funds			<u>284,419</u>		<u>264,115</u>

These financial statements were approved by the trustees on 11 September 2018 and were signed on their behalf by:

R W Hunter
Chair

K I Massey
Trustee

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

Consolidated cash flow statement for the year ended 31 March 2018

Cash flows from operating activities	<i>Note</i>	2018	2017
		£000	£000
Net outgoing resources before other recognised gains and losses		(4,291)	(3,909)
<i>Adjustments for:</i>			
Loss on sale of fixed assets		-	85
Investment income and interest receivable		(3,387)	(3,499)
Depreciation and impairment of tangible fixed assets	4	991	1,004
Revaluation of investment properties	4	-	-
Movement in pension liability, excluding actuarial gains and losses	13	76	58
Realised (losses)/gains on managed fund investments	5	(20,727)	(9,749)
Gains/(losses) on investment assets		23,558	35,516
Provisions made on equity investments	6	216	89
Movement in agricultural loans	7	26	44
(Increase)/Decrease in stock		9	(13)
Decrease in debtors	8	(802)	519
(Decrease)/Increase in creditors	10	144	(153)
Decrease in provisions	11	(2)	(164)
		<hr/>	<hr/>
Net cash flow from operating activities		(4,189)	19,818
		<hr/>	<hr/>
Cash flow from investment activities			
Purchase of managed funds investments	5	(3,231)	(107,856)
Purchase of tangible fixed assets	4	(386)	(293)
Purchase of shares within joint venture	6	(15)	(450)
Sale of managed funds investments	5	4,615	84,317
Net movement in cash flows attributable to managed fund investments	5	(843)	1,790
Consolidation of Viking Energy Shetland LLP		2,123	-
		<hr/>	<hr/>
Net cash flow from investing activities		2,263	(22,492)
		<hr/>	<hr/>
Cash flow from financing activities			
Investment income and interest received		3,387	3,499
		<hr/>	<hr/>
Net cash flow from financing activities		3,387	3,499
		<hr/>	<hr/>
Net increase in cash and cash equivalents		1,461	825
Cash and cash equivalents at 1 April	9	10,302	9,477
		<hr/>	<hr/>
Cash and cash equivalents at 31 March	9	11,763	10,302
		<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Trust's financial statements.

1.1 Basis of preparation

The financial statements have been prepared under the historical cost accounting rules, as modified by the revaluation of investments and in accordance with the provisions of the Trust Deed, the Charities and Trustee Investment (Scotland) Act 2005, the Charities Accounts (Scotland) Regulations 2006 and the Statement of Recommended Practice Accounting and Reporting by Charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102).

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

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

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

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

1.2 Basis of consolidation

These financial statements consolidate the assets and liabilities of the charity and its subsidiaries, Shetland Leasing and Property Developments Limited, Shetland Heat Energy and Power Limited, SCT Renewables Limited (formerly known as Viking Energy Limited) and Viking Energy Shetland LLP, on a line by line basis. The income and expenditure of these subsidiaries are also consolidated on a line by line basis, where appropriate.

In accordance with FRS 102, gift aid payments are accounted for in the subsidiary undertakings in the year in which an irrevocable commitment to make a payment has been made.

1.3 Fund accounting

All funds of the Trust are unrestricted, to be used in accordance with the charitable objectives of the Trust at the discretion of the trustees. The expendable endowment represents the long-term investment funds of the Trust. The unrestricted income funds include the Trust's general funds, which represent the annual operating funds of the Trust, and the trading funds.

The trading funds represent the accumulated results of Shetland Leasing and Property Developments Limited, Shetland Heat Energy and Power Limited, SCT Renewables Limited and Viking Energy Shetland LLP, adjusted to remove interest payable by the Trust to those companies and gift aid payments to the Trust by those companies.

1.4 Income and endowments from other trading activities and rental income

Turnover in Shetland Leasing and Property Development Limited comprises rental income from the leasing of investment properties, the leasing of an aeroplane and the chartering of a vessel and arises entirely in the United Kingdom. Rental income from the operating lease of investment properties is recognised on a straight line basis over the period of the lease. Certain of the group's property developments and lease agreements provide for a notional rate of interest to be charged on development costs for the purpose of calculating the rental due. Such notional interest is not reflected in these financial statements, but will effectively be credited to the statement of financial activities over the lives of the relevant assets as a component of rental income.

Notes (continued)

1 Accounting policies (continued)

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

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

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

Turnover in Viking Energy Shetland LLP represents the amounts recoverable for the services provided to clients.

Investments

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

1.5 Expenditure

Charitable expenditure is recognised when it is payable. The Trust has given commitments to certain charitable bodies to provide ongoing revenue funding and to finance various capital projects. In view of the long-term nature of these commitments which are subject to review, combined with the uncertainty as to the amounts involved, these commitments are accounted for only when irreversible decisions on funding are communicated to the charitable bodies.

Support costs are directly attributable to the Trust's charitable activities and are recorded within the "charitable activities" section of resources expended in the statement of financial activities.

Cost of generating funds

The cost of generating funds represents fund managers' fees.

Governance costs

Governance costs comprise the costs associated with the Trust's compliance with charity regulation and good practice and include related professional fees.

1.6 Basic financial instruments

Trade and other debtors/creditors

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

Investments in preference and ordinary shares

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

Cash and cash equivalents

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

1.7 Grants

Capital based grants received by the Trust's subsidiary undertakings are included within accruals and deferred income in the balance sheet and credited to activities for generating funds over the estimated useful economic lives of the assets to which they relate.

Notes (continued)

1 Accounting policies (continued)

1.8 Investments

Managed funds investments are stated at market value. Realised and unrealised gains and losses arising on these investments are taken to the expendable endowment and are included within other recognised gains and losses in the statement of financial activities. Where investments are transferred between investment managers, an amount equal to the unrealised gains or losses on the investments as at the time of transfer is taken to the expendable endowment.

Investments in subsidiary undertakings are stated at cost less provisions. Any provisions made against these investments are charged to the expendable endowment.

1.9 Tangible fixed assets and depreciation

All expenditure incurred on tangible fixed assets is capitalised irrespective of its value (i.e. there is no minimum level above which assets purchased are capitalised). Tangible fixed assets are capitalised at cost, with the exception of investment properties.

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

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

The asset value of the Sullom Voe site is being depreciated over its estimated remaining economic life of ten years commencing 1 April 2012. The depreciation is charged to the expendable endowment. The district heating scheme infrastructure was transferred to Shetland Heat Energy and Power Limited on 30 September 2016. No depreciation is provided in respect of freehold land.

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

1.10 Investment properties

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

Subsequent to initial recognition:

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

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

Notes (continued)

1 Accounting policies (continued)

1.11 Taxation

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

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

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

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

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

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

1.12 Employee benefits

Defined benefit plans

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

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

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

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

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

Notes (continued)

1 Accounting policies (continued)

1.13 Stock

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

1.14 Cash and cash equivalents

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

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

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

Charitable activities

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

	2018	2017
	£000	£000
General funds		
Payments to charitable organisations	8,019	6,001
Schemes	15	2,374
Charitable grants repaid	(1)	(5)
	<hr/>	<hr/>
Total charitable grants	8,033	8,370
Support costs, including governance costs (below)	512	647
Pension adjustments	76	58
	<hr/>	<hr/>
Total charitable expenditure – general funds	8,621	9,075
	<hr/>	<hr/>
Expendable endowment		
Depreciation	170	284
	<hr/>	<hr/>
Total resources expended on charitable activities	8,791	9,359
	<hr/> <hr/>	<hr/> <hr/>

Some payment from the Arts Grant Scheme are made to individuals. All other grants are payable to organisations. Further details of the group's charitable expenditure are included in Section 4 of the Trustees' Report.

Support costs

Support costs for the year of £409,000 (2017: £523,000) principally represent administration expenses and are all deemed to be attributable to the group's charitable activities. Included within administration expenses is £241,081 (2017: £362,150) in respect of staff costs (see note 3), of which nil (2017: £124,578) was charged to subsidiaries.

Governance costs

Governance costs totalling £103,000 (2017: £124,000) comprise the costs associated with the Trust's compliance with charity regulation and good practice. They include £29,000 (2017: £29,000) representing an appropriate apportionment of salary costs based on the proportion of the Chief Executives time spent on governance, together with Trustees' expenses (note 3), and audit fees (note 2) of £27,000 (2017: £26,000).

Notes *(continued)*

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

	Group and charity	
	Total	Total
	2018	2017
	£000	£000
Allocation of staff and support costs, including Trustees' allowance and expenses (see note 3)	29	29
Other costs	47	69
External auditor's remuneration:		
Audit of these financial statements	27	26
Audit of subsidiary undertakings (excluded from charitable governance costs)	13	17
Other services: taxation in relation to subsidiary undertakings	8	9
	124	150
Total governance costs	124	150

3 Staff numbers and costs

The group had an average of 17 employees during the year (2017: 13). The aggregate payroll cost of these employees was as follows:

	2018	2017
	£000	£000
Wages and salaries	649	467
Social security costs	62	48
Pension costs	69	60
	780	575
	780	575

Employee costs totalling nil (2017: £124,578) were charged by Shetland Charitable Trust in respect of work performed by its subsidiary companies. Nine employees worked wholly or mainly on Shetland Heat Energy and Powers Limited's activities during the year. One employee worked part-time on SCT Renewables Limited's activities during the year. One employee worked part-time on Shetland Leasing and Property Developments Limited. Three employees worked wholly or mainly on Viking Energy Shetland LLP during the year

One employee (2017: one) received emoluments totalling between £80,000 and £89,999. Retirement benefits are accruing to this member of staff under a defined benefit pension scheme; contributions in 2017/18 totalled £14,066. One other employees received emoluments totalling in excess of £60,000 in either the current or previous financial year.

Included above are the emoluments paid to key management personnel comprising 5 employees totalling £346,314 (2017: 5 employees totalling £315,509) including £33,561 (2017: £29,121) in social security costs and £29,257 (2017: £35,008) in pension contributions.

Expenses totalling £2,715 (2017: £4,095) were reimbursed or paid on behalf of 4 trustees (2017: 4 trustees) during the year.

Notes (continued)

4 Tangible fixed assets

Group	Land and buildings £000	District heating scheme infrastructure £000	Investment properties £000	Vessel and aircraft £000	Other plant and machinery and AUC £000	Total £000
Cost or valuation						
At beginning of year	25,434	17,137	18,720	865	2,835	64,991
Additions	-	-	4	-	382	386
Disposals	-	-	-	-	-	-
At end of year	25,434	17,137	18,724	865	3,217	65,377
Depreciation						
At beginning of year	24,941	13,262	1,125	557	2,317	42,202
Charge for year	170	133	564	31	96	994
At end of year	25,111	13,395	1,689	588	2,413	43,196
Net book value						
At 31 March 2018	323	3,742	17,035	277	804	22,181
At 31 March 2017	493	3,875	17,595	308	518	22,789

Land and buildings primarily consist of the site at Sullom Voe, plus the six rural care homes, previously operated by Shetland Welfare Trust, and donated to the Trust in 2007. The rural care homes had been previously funded by the Trust and the capital grant conditions applied to the funding to Shetland Welfare Trust required any building owned by Shetland Welfare Trust to be transferred to the Trust when Shetland Welfare Trust ceased to operate (effectively 1 April 2006). These are specialised buildings in rural locations in Shetland without comparators, which mean that it is not possible to establish a meaningful valuation for them in their present use. The Trustees therefore capitalised them at original cost, in line with the Trust's accounting policy for tangible fixed assets, which they believed to be a reasonable indication of their value at the date they were donated. The buildings continue to be used as care homes, in furtherance of the Trust's charitable objects, and as such are not held for investment purposes.

Investment properties are based on a valuation by an external, independent valuer, having an appropriate recognised professional qualification and recent experience in the location and class of property being valued. The last independent valuation being as at 31 March 2016. The Directors review the valuations annually and consider the last valuation as being appropriate, with the exception of one property whose lease is under negotiation. This investment property has a current value of £1.6m. The outcome of these negotiations are uncertain at the signing date and therefore the Directors are of the view that the current valuation basis is appropriate at this time, based on the information available.

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

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

The historical cost net book value of investment properties, gross of impairment, at 31 March 2018 is £27,887,000 (net of impairment: £24,870,000).

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

Notes (continued)

4 Tangible fixed assets (continued)

Charity

	Land and buildings £000	Donated Assets £000	Total £000
Cost			
At beginning and end of year	16,275	9,159	25,434
	<hr/>	<hr/>	<hr/>
Depreciation			
At beginning of year	15,900	9,041	24,941
Charge for year	75	95	170
	<hr/>	<hr/>	<hr/>
At end of year	15,975	9,136	25,111
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 March 2018	300	23	323
	<hr/>	<hr/>	<hr/>
At 31 March 2017	375	118	493
	<hr/>	<hr/>	<hr/>

5 Managed funds

Group and Charity	2018 Market Value £000	2018 Cost £000	2017 Market Value £000	2017 Cost £000
UK equities	41,045	37,591	43,339	38,801
Overseas equities	148,128	97,622	130,332	98,911
Diversified Investment Fund units	23,514	22,002	22,662	22,002
Property units	36,299	28,749	34,808	29,130
	<hr/>	<hr/>	<hr/>	<hr/>
	248,986	185,964	231,141	188,844
	<hr/>	<hr/>	<hr/>	<hr/>
Total investments	248,986	185,964	231,141	188,844
Cash on deposit and in hand	2,389	2,387	48	48
	<hr/>	<hr/>	<hr/>	<hr/>
	251,374	188,351	231,189	188,892
	<hr/>	<hr/>	<hr/>	<hr/>

Notes *(continued)*

5 Managed funds *(continued)*

	2018 £000	2017 £000
<i>Reconciliation of market value of investments</i>		
Market value at beginning of year	231,189	199,681
Investments purchased	3,231	107,856
Investments sold	(4,615)	(84,317)
Total realised gains/(losses) on managed fund investments	20,727	9,759
Movement in investment managers' cash balances, accrued income and expenses	843	(1,790)
	251,374	231,189
Market value at end of year	251,374	231,189

As at 31 March 2018, the Trust's funds other than programme-related investments are managed by Insight Investment Management, BlackRock Global Investors, Baillie Gifford & Co. and Schroders Property Managers. The split of the portfolio between the investment managers is as follows:

	2018 Market value £000	2018 Cost £000	2017 Market value £000	2017 Cost £000
Insight Investment Management	23,514	22,002	22,662	22,002
BlackRock Global Investors	81,205	55,069	86,200	57,861
Baillie Gifford	107,983	80,160	87,487	79,866
Schroders Property Managers	38,673	31,120	34,840	29,162
	251,375	188,351	231,189	188,891
	251,375	188,351	231,189	188,891

6 Programme-related investments

	Group		Charity	
	2018 £000	2017 £000	2018 £000	2017 £000
Equity (below)	5,389	6,951	27,346	27,442
Loans (note 7)	132	157	132	157
	5,521	7,108	27,478	27,599
	5,521	7,108	27,478	27,599

Notes *(continued)*

6 Programme-related investments *(continued)*

Equity – Group	Shares in subsidiary undertakings £000	Unlisted investments £000	Total £000
Cost			
At beginning of year	7,857	-	7,857
Effect of Consolidation	(1,262)	-	(1,262)
Additions	125	-	125
	<hr/>	<hr/>	<hr/>
Cost at end of year	6,720	-	6,720
	<hr/>	<hr/>	<hr/>
Provisions			
At beginning of year	906	-	906
Effect of Consolidation	425	-	425
Provided in year	-	-	-
	<hr/>	<hr/>	<hr/>
Provisions at end of year	1,331	-	1,331
	<hr/>	<hr/>	<hr/>
Net book value	5,389		5,389
At 31 March 2018			
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2017	6,951	-	6,951
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Equity – Charity			Investments in subsidiary undertakings £000
Cost			
At beginning of year			29,826
Additions			15
			<hr/>
Cost at end of year			29,841
			<hr/>
Provisions			
At beginning of year			2,384
Provided in year			111
			<hr/>
Provisions at end of year			2,495
			<hr/>
Net book value			27,346
At 31 March 2018			27,346
			<hr/> <hr/>
At 31 March 2017			27,442
			<hr/> <hr/>

This is the first year that Viking Energy Shetland LLP has been included in consolidated financial statements. The overall effect on the Group Equity holding is a reduction from £6,951,000 in 2017 to £5,389,000 in 2018.

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:

	2018	2018	2018	2018	2018	2017
	SLAP	SHEAP	SCT R	VES	Total	Total
	£000	£000	£000	£000	£000	£000
Turnover	2,312	2,511	-	115	4,938	4,685
Cost of sales	(145)	(1,448)	-	-	(1,593)	(1,313)
Gross profit	2,167	1,063	-	115	3,345	3,372
Administration expenses	(138)	(1,125)	(5)	(232)	(1,500)	(1,187)
Revaluation of investment properties	-	-	-	-	-	-
Depreciation on investment properties	(564)	-	-	-	(564)	(464)
Provision made against equity investment	-	-	(105)	-	(105)	(89)
Operating profit/(loss)	1,465	(62)	(110)	(117)	1,176	1,631
Gain/(loss) on disposal of investment properties	-	-	-	-	-	(32)
Interest receivable and similar income	2	3	-	-	5	24
Profit/(loss) on ordinary activities before taxation	1,467	(59)	(110)	(117)	1,181	1,623
Tax on profit/(loss) on ordinary activities	-	2	-	-	2	(14)
Profit/(loss) on ordinary activities after taxation being profit/(loss) for the financial year	1,467	(57)	(110)	(117)	1,183	1,609
Gift aid payment to Shetland Charitable Trust	(2,083)	-	-	-	(2,083)	(2,186)
Retained (loss)/profit for the year after Gift Aid payment	(616)	(57)	(110)	(117)	(900)	(577)

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

Notes (continued)

6 Programme-related investments (continued)

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

	2018 Total £000	2017 Total £000
Cost of sales	1,593	1,313
Administration expenses	1,500	1,187
Revaluation of investment properties	-	-
Depreciation on investment properties	564	464
Tax (credit)/charge on profit on ordinary activities	(2)	(163)
Profit on disposal of investment properties	-	32
Interest receivable and similar income	(5)	(24)
	<u>3,651</u>	<u>2,809</u>

Included within the companies' profit/(loss) for the year is a total of £2,072,838 (2017: £2,185,880) 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:

	2018 SLAP £000	2018 SHEAP £000	2018 SCT R £000	2018 VES £000	2018 Total £000	2017 Total £000
Tangible fixed assets	17,314	4,546	-	-	21,860	22,294
Investments	-	-	6,846	5,401	12,247	6,951
Current assets	4,612	1,675	17	2,239	8,543	6,605
Current liabilities	(2,294)	(1,198)	(6)	(33)	(3,531)	(3,568)
Provisions for liabilities and charges	-	-	-	-	-	(180)
Total net assets	<u>19,632</u>	<u>5,023</u>	<u>6,857</u>	<u>7,607</u>	<u>39,119</u>	<u>32,102</u>
Called up share capital	15,500	1,000	9,352	7,607	33,459	25,837
Profit and loss account	3,721	280	(2,495)	-	1,506	2,260
Capital contribution reserve	-	3,743	-	-	3,743	3,875
Revaluation reserve	411	-	-	-	411	130
Total reserves	<u>19,632</u>	<u>5,023</u>	<u>6,857</u>	<u>7,607</u>	<u>39,119</u>	<u>32,102</u>

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

7 Programme-related investments – Loans

Group and charity	2018 £000	2017 £000
Agricultural Ten Year Loan Scheme	135	160
Provisions for doubtful debts	(3)	(3)
	<u>132</u>	<u>157</u>

Notes (continued)

8 Debtors

	Group		Charity	
	2018	2017	2018	2017
	£000	£000	£000	£000
Trade debtors	890	686	2	2
Amounts owing from subsidiary undertakings	36	-	2,073	2,190
Prepayments and accrued income	253	281	191	219
Other debtors:	97	135	-	-
Programme-related loans	629	-	629	-
	<u>1,905</u>	<u>1,102</u>	<u>2,895</u>	<u>2,411</u>

9 Cash and cash equivalents

Group	2018	2017
	£000	£000
Cash at bank and in hand	<u>11,763</u>	<u>10,302</u>

10 Creditors: amounts falling due within one year

	Group		Charity	
	2018	2017	2018	2017
	£000	£000	£000	£000
Trade creditors	1,228	1,202	53	35
Rents in advance	76	76	-	-
Corporation tax	-	-	-	-
Other tax and social security	6	-	-	-
Other creditors and accruals	469	359	272	220
Amounts owing to subsidiary undertakings	2	-	-	-
	<u>1,781</u>	<u>1,637</u>	<u>325</u>	<u>255</u>

Notes *(continued)*

11 Provisions for liabilities and charges

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

The deferred tax liability arising within the Trust's subsidiary companies at the year-end of £Nil (2017: £2,000) is analysed as follows:

Group	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
	£000	£000	£000	£000	£000	£000
Accelerated capital allowances	(2)	-	2	2	-	2
	(2)	-	2	2	-	2
Net tax (assets) / liabilities	(2)	-	2	2	-	2

12 Expendable endowment

	Group Total £000	Charity Total £000
At beginning of year	280,046	280,046
Outgoing resources	(170)	(170)
Gain/(Losses) in the year	23,558	23,558
	280,434	280,434
At end of year	303,434	303,434

Notes *(continued)*

13 Unrestricted income funds

Group	General funds £000	Trading funds £000	Pension reserve £000	Revaluation reserve £000	Total unrestricted income funds £000
At beginning of year	(13,992)	4,427	(1,939)	411	(11,093)
Net movement in funds	(3,362)	(684)	(76)	-	(4,122)
Actuarial (losses)/gains	-	-	354	-	354
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	(17,354)	3,743	(1,661)	411	(14,861)
	<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	(13,992)	(1,939)	(15,931)
Net incoming resources before other recognised gains and losses	(3,362)	(76)	(3,438)
Actuarial(losses)/gain	-	354	354
	<hr/>	<hr/>	<hr/>
At end of year	(17,354)	(1,661)	(19,015)
	<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.

14 Operating leases

Group

Non-cancellable operating lease rentals are payable as follows:

	2018 £000	2017 £000
Less than one year	15	12
Between one and five years	58	49
More than five years	217	219
	<hr/>	<hr/>
	290	280
	<hr/> <hr/>	<hr/> <hr/>

During the year £22,000 was recognised as an expense in the consolidated statement of financial activities in respect of operating leases (2017: £22,875).

Investment properties are let under operating leases. The minimum lease payments receivable under non-cancellable leases are £105,000 less than one year, £4,036,000 between two and five years and £13,381,000 greater than 5 years.

15 Commitments

Capital commitments

SHEAP's contractual commitments to purchase tangible fixed assets at the year-end were £Nil (2017: £Nil).

16 Subsequent Events

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

17 Pension scheme

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

The latest full actuarial valuation was carried out at 31 March 2017 and was updated for FRS 102 purposes to 31 March 2018 by a qualified independent actuary.

	2018 £000	2017 £000
Net pension liability defined benefit obligation	(4,557)	(5,193)
Fair value of plan assets	3,041	3,402
	<hr/>	<hr/>
Unfunded defined benefit obligations	(1,516)	(1,791)
	(145)	(148)
	<hr/>	<hr/>
Net pension liability	(1,661)	(1,939)
	<hr/> <hr/>	<hr/> <hr/>

Movements in present value of defined benefit obligation:

	2018 £000	2017 £000
At 1 April	5,341	4,147
Current service cost	63	67
Interest cost	138	145
Actuarial (gains)/losses	(709)	1,074
Contributions by members	15	20
Benefits paid	(146)	(112)
	<hr/>	<hr/>
At 31 March	4,702	5,341
	<hr/> <hr/>	<hr/> <hr/>

Movements in fair value of plan assets:

	2018 £000	2017 £000
At 1 April	3,402	2,868
Expected return on plan assets	87	100
Actuarial (losses)/gains	(355)	472
Contributions by employer	38	54
Contributions by members	15	20
Benefits paid	(146)	(112)
	<hr/>	<hr/>
At 31 March	3,041	3,402
	<hr/> <hr/>	<hr/> <hr/>

Notes *(continued)*

17 Pension scheme *(continued)*

Expenditure recognised in the statement of financial activities:

	2018	2017
	£000	£000
Current service cost	(63)	(67)
Interest cost	(51)	(45)
	<hr/>	<hr/>
Total	(114)	(112)
	<hr/> <hr/>	<hr/> <hr/>

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

	2018	2017
	£000	£000
Charitable activities – support costs	(114)	(112)
	<hr/>	<hr/>

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

	2018	2017
	£000	£000
Actuarial (losses)/gains	709	(1,074)
Return on assets attributed to the Charity excluding interest income	(355)	472
	<hr/>	<hr/>
	354	(602)
	<hr/> <hr/>	<hr/> <hr/>

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

	2018	2017
	Fair value	Fair value
	£000	£000
Equities	2,402	2,756
Corporate bonds	274	272
Property	365	374
	<hr/>	<hr/>
	3,041	3,402
	<hr/> <hr/>	<hr/> <hr/>
Actual return on plan assets	66	576
	<hr/> <hr/>	<hr/> <hr/>

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

Notes (continued)

17 Pension scheme (continued)

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

	2018	2017
	%	%
Discount rate	2.7	2.6
Future salary increases	3.02	4.4
Inflation / pension increase rate	2.4	2.4

In valuing the liabilities of the pension fund at 31 March 2018, mortality assumptions have been made as indicated below. The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

Current pensioner aged 65: 22.1 years (male), 24.0 years (female).

Future retiree upon reaching 65: 23.9 years (male), 26.1 years (female).

The Trust expects to contribute approximately £32,000 (2017: £48,000) to its defined benefit plans in the next financial year to 31 March 2019.

18 Related parties

In the year to 31 March 2018 the SCT Renewables Limited invested Nil (2017: £450,000) in Viking Energy Shetland LLP in which SCT Renewables Limited is a 90% partner.

In the year to 31 March 2018 Shetland Leasing and Property Developments Limited charged Viking Energy Shetland LLP £9,001 (2017: £9,894) in relation to office rental. The transactions were carried out at normal market rates. There was no balance due at 31 March 2018 (2017: £nil).

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

19 Accounting estimates and judgements

Key sources of estimated uncertainty

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

Critical accounting judgements in applying the Company's accounting policies

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

The Trustees exercise judgement to determine useful lives and residual values of property, plant and equipment. Depreciation is charged to the expendable endowment to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives.

Notes (continued)

19 Accounting estimates and judgements (continued)

The Trust participates in the Shetland Islands Council Pension Fund which provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Trust. In valuing the liabilities of the pension fund and the Trust's share of the scheme assets at 31 March 2018, assumptions have been made. The latest full actuarial valuation was carried out at 31 March 2017 and was updated for FRS 102 purposes to 31 March 2018 by a qualified independent actuary. The assumptions used are consistent with those prescribed for FRS 102.

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

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

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

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

