

Chief Executive: Dr Ann Black

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Shetland  
ZE1 0NQ

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

Our Ref: EM/TA48

Date: 7 September 2016

Dear Sir/Madam

You are invited to the following meeting:

**Shetland Charitable Trust  
The Bowlers Bar, Clickimin Leisure Complex, Lerwick  
Thursday 15 September 2016 at 5.30pm**

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

*(Please note the time and venue of this meeting)*

Yours faithfully

(signed) Dr Ann Black  
Chief Executive

## **AGENDA**

- (a) Hold circular calling the meeting as read.
- (b) Apologies for absence, if any.
- (c) Declarations of Interest - Trustees are asked to consider whether they have an interest to declare in relation to any item on the agenda for this meeting. Any Trustee making a declaration of interest should indicate whether it is a financial or non-financial interest and include some information on the nature of the interest. Advice may be sought from Officers prior to the meeting taking place.

(d) Confirm minutes of meeting held on 30 June 2016 (enclosed).

***For Decision***

1. Shetland Charitable Trust – Annual Report and Accounts for the year to 31 March 2016. Report enclosed.
2. Risk Management – Annual Review. Report enclosed.
3. Trust Deed. Report enclosed.
4. Shetland Recreational Trust – Retention of Surplus Funds 2015/16. Report enclosed.
5. Service Performance of Funded Organisations – Year Ending 31 March 2016. Report enclosed.

***For Information***

6. Investment Review Report – Quarter to 30 June 2016. Report enclosed.
7. Small Grant Scheme - Approvals. Report enclosed.

*The following items contain **CONFIDENTIAL** information*

***For Decision***

8. Appointment of Investment Performance Measurement Advisor. Report enclosed.

***For Information***

9. Aged Debtors at 31 August 2016. Report enclosed.
10. Deeds Executed. Report enclosed.
11. Update from Chairs of Advisory Committees.
12. Update from Subsidiary Companies.

## REPORT

To: Shetland Charitable Trust

15 September 2016

From: Chief Executive

Report: CT1609037

### **Shetland Charitable Trust Annual Report and Accounts for the year to 31 March 2016**

#### **1. Introduction**

- 1.1 The purpose of this report is to present the Annual Report and Accounts for the year to 31 March 2016 for approval. These are attached as Appendix A.

#### **2. Commentary**

- 2.1 Shetland Charitable Trust (the Trust) has seen a decrease in funds of £7.6 million this financial year, mainly due to the loss on investments of £4.6 million. The Trusts net asset position now stands at £232.8 million (2015: £240.4 million).
- 2.2 Total incoming resources were £7.8 million and total resources expended were £11.2 million. This loss of £3.4 million (2015: 3.6m) was offset by actuarial gains on the pension scheme of £0.4 million, as shown in the table on page six of Appendix B.
- 2.3 KPMG LLP have written a report, shown in Appendix B, which summarises the work of the auditors along with a summary of the Trusts financial position as at 31 March 2016. Bruce Marks of KPMG presented this report to the Audit and Governance Committee on Thursday 25 August 2016.
- 2.4 The letter of representation from Trustees to KPMG, required to complete the audit, is attached as Appendix C.
- 2.5 Total charitable expenditure for the year was £9.4 million (2015: £9.8 million), which is in line with the Trusts' disbursement plan. Further information on charitable activities is provided in the Annual Report.
- 2.6 The Trust funds invested on global markets fell this year, resulting in a loss of £4.6 million (2015: gain of £20.2 million). The total investments of the Trust have decreased by £6.8 million. Investment management costs for the year were £520,000 (2014: £497,000) which is an increase in the year of £23,000. This increase is due to

a change in the Bond Fund portfolio with Insight resulting in a higher fee structure.

- 2.7 Gift Aid in the year totalled £2.6 million, £2.15 million of which was from SLAP (2015: £2.1 million) and £0.45 million from Shetland Heat Energy and Power Ltd (SHEAP) (2015: £0.4 million). This is an increase of £0.1 million.
- 2.8 Programme related investments have increased in the year due to the increased equity holding in the subsidiary companies offset by the repayment of balances under the agricultural loans scheme.

### **3. Financial Implications**

- 3.1 The Trust's net movement in funds for the year was a £7.6 million outflow (2015: £16.8 million inflow). The Trust continues to maintain a strong cash balance and has net assets at 31 March 2016 of £232.8 million (2015: £240.4 million).

### **4. Recommendations**

- 4.1 Trustees are asked to:-
- a) approve the Annual Report and Accounts for the year to 31 March 2016 attached as Appendix A;
  - b) authorise the Chairman and Vice Chairman to sign the accounts;
  - c) authorise the Chairman to sign the Letter of Representation reproduced as Appendix C, and
  - d) note the summary report from KPMG LLP, the Trust's auditors, attached as Appendix B.

Reference: TA2  
Date: 5 September 2016

Report Number: CT1509037



**Shetland Charitable Trust**

Trustees' report and consolidated  
financial statements

Charity number SC027025

31 March 2016

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## **Chair's introduction**

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

The Trust's three Advisory Committees met regularly throughout the year. The Investment Advisory Committee has reviewed the Trust's Investment Strategy. Their recommendations were approved in February 2016 and the new strategy for 2016-2020 has been put in place. The strategy introduces a diversified growth manager where 10% of the Trust's reserves will be invested. A further 75% of the Trust's reserves will be invested in Growth Assets, 50% of this will be active and 50% will be passive. The other 15% of investments will remain in property. The new investment strategy is projected to realise an increased gross return on investments from 5.5% per annum to 7.5% per annum.

The General Purposes Advisory Committee has reviewed the Reserve's Policy applied to funded organisations, in line with the disbursement review. This resulted in the removal of the policy and amendments being made to grant offer letters allowing organisations more flexibility in managing their budgets.

Finally the Audit and Governance Advisory Committee, following a tender process, appointed the Institute of Directors to prepare an independent report reviewing the governance arrangements of the Trust in light of the last three years. In May 2016, the recommendations set out in the report were approved by the Trustees. This will result in the number of Councillor Trustees on the Trust Board reducing from seven to four, depending on the outcome of discussions with the SIC.

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

**R W Hunter**  
*Chair*

15 September 2016

## Trustees' Report

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

**Name** Shetland Charitable Trust

**Scottish Charity Number** SC027025

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

#### ***Selected***

R W Hunter, Chair

A B Cooper

T Macintyre (appointed 29 May 2015)

P Malcolmson

K I Massey

T M Morton (resigned 8 July 2015)

I R Napier

J L B Smith

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

J W G Wills, Vice Chair

M J Bell

A G L Duncan

R S Henderson

A I Manson

W A Ratter

A J Westlake

**Chief Executive** Dr Ann Black

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

**Auditor** KPMG LLP  
191 West George Street  
Glasgow  
G2 2LJ

#### **Solicitors -**

<b>Governance and Charity Law</b>	Turcan Connell Princes Exchange 1 Earl Grey Street Edinburgh EH3 9EE	<b>Commercial</b>	Maclay Murray & Spens LLP Quartermile One 15 Lauriston Place Edinburgh EH3 9EP
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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)*

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

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

#### **Governing Document**

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

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

#### **Charitable Status**

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

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

The Trust is made up of eight appointed Trustees recommended by a selection panel and appointed by the Trustees, and seven Councillor Trustees who are elected members of, and appointed by, Shetland Islands Council. There was one vacant selected Trustee at the year-end.

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

#### **Management and Administration**

The Trust is managed and administered by a team of five directly employed staff. The Chief Executive's role is to ensure that the charitable activities carried out by the Trust are in furtherance of its purposes, represent value for money and complement the needs and aspirations of the community. This must all be in accordance with the Trust Deed and the law. The Chief Executive is also responsible for the effective management of the Trust's liquid resources. 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).

## Trustees' Report *(continued)*

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

#### Minutes

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

#### Subsidiary Companies

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

<b>Shetland Leasing and Property Developments Limited (SLAP)</b>	Susan Groat – Chair William Manson Michael Thomson
<b>Shetland Heat Energy and Power Limited (SHEAP)</b>	Andrew Blackadder –Chair (resigned 03/06/16) Ian Kinniburgh (resigned 30/11/15) Keith Massey (resigned 24/05/16) James Armitage (appointed 12/11/16) Allan Wishart (appointed 12/11/16)

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

<b>C. T. Shetland (TM) Limited</b>	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.

<b>SCT Renewables Limited</b>	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 10 September 2015. The five strategic key risks are:

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

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

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

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

#### **Disclosure of information to auditor**

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

### **Section 3: Objectives and Activities**

#### **Priorities**

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

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

#### **Strategic Partnerships**

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

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

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

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

#### **Grant Making Policy**

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

#### **Financial Objectives**

In the three year period ending on 31 March 2016, Trustees agreed that annual expenditure needed to be reduced by £1.1 million to £9.9 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.

## Trustees' Report (continued)

### Section 3: Objectives and Activities (continued)

Trustees have approved a new Financial Plan which will run to 31 March 2020. The aim of this plan is to reduce the expenditure of the Trust to £8.5 million by 2020. It was felt that the maximum expenditure of £11 million in the previous financial plan did not allow the Trust to be sustainable. A budget of £9.5m has been set for the year to 31 March 2017 in line with the new Financial Plan.

#### 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 2016, the Trust provided grant assistance to the following organisations towards the cost of providing a range of social, leisure, cultural, heritage and environmental activities:

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

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

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

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

- Community Support Grant Aid Scheme
- Arts Grant Aid Scheme
- Senior Citizen's Clubs
- Rural Care Model
- Local Charitable Organisations
- Social Assistance Grants

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 2015/16. 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

	2015/16 budget £	Actual spend to 31 March 2016 £	2015 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	2,518,000	2,518,000	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
Shetland Churches Council Trust	54,004	54,004	54,055
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	126,461	126,461	135,754
Festival Grants	30,000	30,000	30,000
Local Charitable Organisations	14,000	11,552	11,552
Royal Voluntary Service	46,985	46,985	47,622
<b>Sub Total Organisations</b>	<b>4,985,151</b>	<b>4,982,703</b>	<b>4,993,904</b>

## Trustees' Report *(continued)*

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

	2015/16 budget £	Actual spend to 31 March 2016 £	2015 spend £
<b><u>Schemes</u></b>			
Community Support Grants	54,241	54,144	52,967
Arts Grant Scheme	35,000	23,241	26,658
Senior Citizen's Clubs	15,000	12,336	12,828
Support to Rural Care Model	2,407,500	2,407,500	2,491,000
Buses for Elderly and Disabled	49,980	49,980	49,980
<b>Sub Total Schemes</b>	<b>2,561,721</b>	<b>2,547,201</b>	<b>2,633,433</b>
<b><u>Direct Schemes</u></b>			
Financial Hardship Scheme	-	-	157,382
Planned Maintenance	1,243,680	1,243,680	1,715,710
<b>Sub Total Direct Schemes</b>	<b>1,243,680</b>	<b>1,243,680</b>	<b>1,873,092</b>
Surplus Grants Refunded	-	(27,428)	(76,695)
<b>Sub-total charitable expenditure</b>	<b>8,790,552</b>	<b>8,746,156</b>	<b>9,423,734</b>
Trust Administration, including governance costs	652,130	575,194	472,108
<b>Total</b>	<b>9,442,682</b>	<b>9,321,350</b>	<b>9,895,842</b>

Total charitable expenditure and administration costs are shown before adjustment for pension adjustments under FRS 102 totalling £89,000.

## 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. The Trust's investments on the world markets reduced, net of dividend income, by £2.5 million over 2015/16. In 2015/16, around £3.6 million income was derived from investments in Shetland, valued at around £23 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 2016) of the Trust's reserves that are invested to generate income (i.e. not the 'Donated Properties') is around £223 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

2015/16 was a poor year for investment returns, largely reflecting the poor world market conditions. Overall the Trust achieved returns of £1.1 million (about 0.5%).

#### Stock Exchanges

As at 31 March 2016, three fund managers managed the Trust's Stock Exchanges portfolio. BlackRock Global Investors manage around £105.6 million invested in equities (shares), Insight Investment manage around £60.8 million in bonds, and Schroders Property Managers manage around £33.3 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 £18.0 million and it generated rental income of over £2.3 million in 2015/16. The Board of Directors resolved to make a gift aid payment of £2.1 million to the Trust in the financial year 2015/16. This mechanism means that neither body pays tax on the profits.

Shetland Heat Energy and Power Limited (SHEAP) is a wholly owned subsidiary of the Trust, set up to operate the Lerwick District Heating Scheme. SHEAP has over 1200 customers receiving heat. The Board of Directors resolved to make a gift aid payment of £0.4million to the Trust in the financial year 2015/16.

SCT Renewables Limited is a 100% owned subsidiary of the Trust. The Trust has invested £8.9 million at 31 March 2016. It participates in the Viking Energy project which is investigating a very large wind farm project in central Shetland.

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

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

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

#### **Decisions about Investments**

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

After considering appropriate advice, Trustees have adopted a revised investment strategy based on a 75% in shares (37.5% actively managed and 37.5% managed passively), 15% in property and 10% in a diversified portfolio of assets. Revised investment strategy will be 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. Trustees have agreed to a policy of engagement on these issues with investee companies, through the fund managers.

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

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

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

Finally, the Trust must undertake a review of its Governance by 2017 as was agreed when the Trust was reconstituted. This review has progressed during the year and will be completed during 2016/17.

**R W Hunter**  
*Chair*

15 September 2016

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

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

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

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

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

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

ABCD

191 West George Street  
Glasgow  
G2 2LJ  
United Kingdom

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

We have audited the group and charity financial statements (the 'financial statements') of Shetland Charitable Trust for the year ended 31 March 2016 set out on pages 13 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*.

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 of the charity's affairs as at 31 March 2016 and of the group's and charity's incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

### **Matters on which we are required to report by exception**

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

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

**Bruce Marks**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

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

16 September 2016

**Consolidated statement of financial activities**  
*for the year ended 31 March 2016*

	<i>Note</i>	<b>Unrestricted funds</b>		<b>2016 Total £000</b>	2015 Total £000
		General funds £000	Expendable endowment £000		
<b>Income and endowments from</b>					
Other trading activities	6	4,724	-	<b>4,724</b>	4,620
Investments		4,304	-	<b>4,304</b>	4,675
Rental income		956	-	<b>956</b>	1,047
Other income		4	-	<b>4</b>	6
		<hr/>	<hr/>	<hr/>	<hr/>
Total income and endowments		9,988	-	<b>9,988</b>	10,348
<b>Expenditure on</b>					
Expenditure on raising funds	6	(2,344)	-	<b>(2,344)</b>	(2,237)
Investment Management		(520)	-	<b>(520)</b>	(497)
Provision made against equity investment	6	(127)	-	<b>(127)</b>	(247)
Charitable activities	2	(9,410)	(1,217)	<b>(10,627)</b>	(11,193)
		<hr/>	<hr/>	<hr/>	<hr/>
Total expenditure		(12,401)	(1,217)	<b>(13,618)</b>	(14,174)
		<hr/>	<hr/>	<hr/>	<hr/>
Net (losses)/gains on investments	12	-	(4,555)	<b>(4,555)</b>	20,214
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Net (expenditure)/income</b>		(2,413)	(5,772)	<b>(8,185)</b>	16,388
<b>Other recognised gains and losses</b>					
Release of revaluation reserve on sale of investment property		-	-	-	(17)
Actuarial gains in defined benefit pension scheme	17	435	-	<b>435</b>	285
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Net movement in funds</b>		(1,978)	(5,772)	<b>(7,750)</b>	16,656
		<hr/>	<hr/>	<hr/>	<hr/>
Fund balances brought forward	13, 12	(4,888)	250,586	<b>245,698</b>	229,042
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Fund balances carried forward</b>		(6,866)	244,814	<b>237,948</b>	245,698
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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 37 form a part of the financial statements.

## Trust statement of financial activities

for the year ended 31 March 2016

	Note	Unrestricted funds		2016	2015
		General funds £000	Expendable endowment £000	Total £000	Total £000
<b>Income and endowments from</b>					
Income from investments		4,304	-	<b>4,304</b>	4,675
Other trading activities (Gift Aid receipts from subsidiary undertakings)	6	2,581	-	<b>2,581</b>	2,482
Rental income		956	-	<b>956</b>	1,047
Other income		2	-	<b>2</b>	6
<b>Total income and endowments</b>		<b>7,843</b>	<b>-</b>	<b>7,843</b>	<b>8,210</b>
<b>Expenditure on:</b>					
Expenditure on raising funds		(520)	-	<b>(520)</b>	(497)
Provision made against equity investment	6	(133)	-	<b>(133)</b>	(193)
<b>Charitable activities</b>	2	<b>(9,410)</b>	<b>(1,217)</b>	<b>(10,627)</b>	<b>(11,193)</b>
<b>Total expenditure</b>		<b>(10,063)</b>	<b>(1,217)</b>	<b>(11,280)</b>	<b>(11,883)</b>
(Losses)/gains on investment assets	12	-	(4,555)	<b>(4,555)</b>	20,214
<b>Net (expenditure)/income</b>		<b>(2,220)</b>	<b>(5,772)</b>	<b>(7,992)</b>	<b>16,541</b>
<b>Other recognised gains</b>					
Actuarial gains in defined benefit pension scheme	17	435	-	<b>435</b>	285
<b>Net movement in funds</b>		<b>(1,785)</b>	<b>(5,772)</b>	<b>(7,557)</b>	<b>16,826</b>
Total funds brought forward	13,12	(10,224)	250,586	<b>240,362</b>	223,536
<b>Fund balances carried forward</b>		<b>(12,009)</b>	<b>244,814</b>	<b>232,805</b>	<b>240,362</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 18 to 37 form a part of the financial statements.



## Consolidated balance sheet

as at 31 March 2016

	Note	2016 £000	2016 £000	2015 £000	2015 £000
<b>Fixed assets</b>					
Tangible assets	4		23,585		25,472
Investments	5	199,681		207,011	
Programme-related investments	6, 7	6,791		4,718	
			<u>206,472</u>		<u>211,729</u>
<b>Total fixed assets</b>			<u>230,057</u>		<u>237,201</u>
<b>Current assets</b>					
Stocks		28		38	
Debtors	8	1,621		3,363	
Cash at bank and in hand	9	9,477		8,600	
			<u>11,126</u>	<u>12,001</u>	
<b>Total current assets</b>		<u>11,126</u>		<u>12,001</u>	
<b>Creditors: amounts falling due within one year</b>	10	<u>(1,790)</u>		<u>(1,656)</u>	
<b>Net current assets</b>			<u>9,336</u>		<u>10,345</u>
<b>Total assets less current liabilities</b>			<u>239,393</u>		<u>247,546</u>
<b>Provisions for liabilities and charges</b>	11		<u>(166)</u>		<u>(223)</u>
<b>Net assets excluding pension liability</b>			<u>239,227</u>		<u>247,323</u>
Pension liability	17		<u>(1,279)</u>		<u>(1,625)</u>
<b>Net assets including pension liability</b>			<u>237,948</u>		<u>245,698</u>
<b>Represented by:</b>					
Expendable endowment	12		244,814		250,586
Unrestricted income funds:	13				
General funds			(10,730)		(8,406)
Trading funds			5,014		5,014
Revaluation reserve			129		129
			<u>(5,587)</u>		<u>(3,263)</u>
Unrestricted income funds excluding pension reserve			<u>(1,279)</u>		<u>(1,625)</u>
Pension reserve	13		<u>(1,279)</u>		<u>(1,625)</u>
<b>Total unrestricted income funds</b>	13		<u>(6,866)</u>		<u>(4,888)</u>
<b>Total group funds</b>			<u>237,948</u>		<u>245,698</u>

These financial statements were approved by the trustees on 15 September 2016 and were signed on their behalf by:

**R W Hunter**  
Chairman

**J W G Wills**  
Vice-Chairman

The notes on pages 18 to 37 form a part of these financial statements.

## Trust balance sheet

as at 31 March 2016

	Note	2016 £000	2016 £000	2015 £000	2015 £000
<b>Fixed assets</b>					
Tangible assets	4		4,766		5,983
Investments	5	199,681		207,011	
Programme-related investments	6, 7	23,298		22,731	
			<u>222,979</u>		<u>229,742</u>
<b>Total fixed assets</b>			<u>227,745</u>		<u>235,725</u>
<b>Current assets</b>					
Debtors	8	3,335		3,225	
Cash at bank and in hand		3,525		3,495	
			<u>6,860</u>	<u>6,720</u>	
<b>Creditors:</b> amounts falling due within one year	10	(521)		(458)	
<b>Net current assets</b>			<u>6,339</u>		<u>6,262</u>
<b>Net assets excluding pension liability</b>			<u>234,084</u>		<u>241,987</u>
Pension liability	17		(1,279)		(1,625)
<b>Net assets including pension liability</b>			<u>232,805</u>		<u>240,362</u>
<b>Represented by:</b>					
Expendable endowment	12		244,814		250,586
Unrestricted income funds:					
General funds	13		(10,730)		(8,599)
Pension reserve	13		(1,279)		(1,625)
			<u>(12,009)</u>		<u>(10,224)</u>
Total unrestricted income funds	13		(12,009)		(10,224)
<b>Total Trust funds</b>			<u>232,805</u>		<u>240,362</u>

These financial statements were approved by the trustees on 15 September 2016 and were signed on their behalf by:

**R W Hunter**  
Chairman

**J W G Wills**  
Vice-Chairman

The notes on pages 18 to 37 form a part of these financial statements.

## Consolidated cash flow statement

for the year ended 31 March 2016

<b>Cash flows from operating activities</b>	<i>Note</i>	<b>2016</b>	2015
		<b>£000</b>	£000
Net outgoing resources before other recognised gains and losses		<b>(3,630)</b>	(3,791)
<i>Adjustments for:</i>			
Loss on sale of fixed assets		<b>258</b>	1,254
Investment income and interest receivable		<b>(4,304)</b>	(4,675)
Depreciation and impairment of tangible fixed assets	4	<b>2,009</b>	2,003
Revaluation of investment properties	4	<b>(281)</b>	(16)
Movement in pension liability, excluding actuarial gains and losses	13	<b>89</b>	80
Realised (losses)/gains on managed fund investments	5	<b>6,358</b>	(458)
(Losses)/gains on investment assets		<b>(4,555)</b>	20,214
Provisions made on equity investments	6	<b>127</b>	247
Movement in agricultural loans	7	<b>50</b>	68
Decrease in stock		<b>10</b>	21
Decrease in debtors	8	<b>1,742</b>	(951)
Increase in creditors	10	<b>134</b>	50
Decrease in provisions	11	<b>(57)</b>	(52)
		<hr/>	<hr/>
<b>Net cash flow from operating activities</b>		<b>(2,050)</b>	13,994
		<hr/>	<hr/>
<b>Cash flow from investment activities</b>			
Purchase of managed funds investments	5	<b>(12,237)</b>	(231,987)
Purchase of tangible fixed assets	4	<b>(99)</b>	(280)
Purchase of shares within joint venture	6	<b>(2,250)</b>	(225)
Sale of managed funds investments	5	<b>11,529</b>	212,531
Net movement in cash flows attributable to managed fund investments	5	<b>1,680</b>	1,832
		<hr/>	<hr/>
<b>Net cash flow from investing activities</b>		<b>(1,377)</b>	(18,129)
		<hr/>	<hr/>
<b>Cash flow from financing activities</b>			
Investment income and interest received		<b>4,304</b>	4,675
		<hr/>	<hr/>
<b>Net cash flow from financing activities</b>		<b>4,304</b>	4,675
		<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>		<b>877</b>	540
<b>Cash and cash equivalents at 1 April</b>	9	<b>8,600</b>	8,060
		<hr/>	<hr/>
<b>Cash and cash equivalents at 31 March</b>	9	<b>9,477</b>	8,600
		<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).

An explanation of how the transition to FRS 102 has affected the financial position and the financial performance of the Group and Trust is provided in note 20.

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

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

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

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

#### 1.2 Basis of consolidation

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

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

#### 1.3 Fund accounting

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

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

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

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

## Notes (continued)

### 1 Accounting policies (continued)

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

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

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

##### *Investments*

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

#### 1.5 Expenditure

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

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

##### *Cost of generating funds*

The cost of generating funds represents fund managers' fees.

##### *Governance costs*

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

#### 1.6 Basic financial instruments

##### *Trade and other debtors/creditors*

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

##### *Investments in preference and ordinary shares*

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

##### *Cash and cash equivalents*

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

#### 1.7 Grants

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

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.8 Investments

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

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

#### 1.9 Tangible fixed assets and depreciation

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

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

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

The asset value of the Sullom Voe site is being depreciated over its estimated remaining economic life of ten years commencing 1 April 2012, and the district heating scheme infrastructure is depreciated over a period of 30 years commencing on 1 April 2004. The depreciation is charged to the expendable endowment. 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:

<b>General funds</b>	<b>2016</b>	2015
	<b>£000</b>	£000
Payments to charitable organisations	<b>4,983</b>	4,994
Schemes	<b>2,547</b>	2,634
Direct schemes	<b>1,244</b>	1,873
Charitable grants repaid	<b>(28)</b>	(76)
	<hr/>	<hr/>
Total charitable grants	<b>8,746</b>	9,425
Support costs, including governance costs (below)	<b>575</b>	472
Pension adjustments	<b>89</b>	80
	<hr/>	<hr/>
Total charitable expenditure – general funds	<b>9,410</b>	9,977
	<hr/>	<hr/>
<b>Expendable endowment</b>		
Depreciation – see note 4	<b>1,217</b>	1,216
	<hr/>	<hr/>
<b>Total resources expended on charitable activities</b>	<b>10,627</b>	11,193
	<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 £471,000 (2015: £336,000) principally represent administration expenses and are all deemed to be attributable to the group's charitable activities. Included within administration expenses is £492,000 (2015: £497,000) in respect of staff costs (see note 3), of which £252,704 (2015: £267,405) was charged to subsidiaries.

#### Governance costs

Governance costs totalling £105,000 (2015: £101,000) comprise the costs associated with the Trust's compliance with charity regulation and good practice. They include £29,000 (2015: £29,000) representing an appropriate apportionment of salary costs based on the proportion of the Chief Executives time spent on governance, together with Trustees' expenses (note 3), and audit fees (note 2) of £26,000 (2015: £21,000).



**Notes** *(continued)*

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

	<b>Group and charity</b>	
	<b>Total</b>	<b>Total</b>
	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Allocation of staff and support costs, including Trustees' allowance and expenses (see note 3)	29	29
Other costs	50	51
External auditor's remuneration:		
Audit of these financial statements	26	21
Audit of subsidiary undertakings (excluded from charitable governance costs)	18	11
Other services: taxation in relation to subsidiary undertakings	12	7
	105	101
<b>Total governance costs</b>	<b>105</b>	<b>101</b>

**3 Staff numbers and costs**

The group had an average of 13 employees during the year (2015: 13). The aggregate payroll cost of these employees was as follows:

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Wages and salaries	413	399
Social security costs	33	31
Pension costs	65	67
	511	497
	<b>511</b>	<b>497</b>

Employee costs totalling £252,704 (2015: £267,405) were charged by Shetland Charitable Trust in respect of work performed by its subsidiary companies. Seven employees worked wholly or mainly on Shetland Heat Energy and Powers Limited's activities during the year. One employee worked part-time on SCT Renewables Limited's activities during the year.

No employee (2015: no employee) received an emolument totalling between £70,000 and £79,999 and one employee (2015: one) received an emolument totalling between £80,000 and £89,999. Retirement benefits are accruing to this member of staff under a defined benefit pension scheme; contributions in 2015/16 totalled £13,779. No other employees received emoluments totalling in excess of £60,000 in either the current or previous financial year.

Included above are the emoluments paid to key management personnel comprising 5 employees totalling £225,855 (2015: 4 employees totalling £226,123) including £17,199 (2015: £18,160) in social security costs and £29,326 (2015: £28,877) in pension contributions.

Expenses totalling £ 4,296 (2015: £3,962) were reimbursed or paid on behalf of 5 trustees (2015: 5 trustees) during the year.

## Notes (continued)

### 4 Tangible fixed assets

Group	Land and buildings £000	District heating scheme infrastructure £000	Investment properties £000	Vessel and aircraft £000	Other plant and machinery and AUC £000	Total £000
<i>Cost or valuation</i>						
At beginning of year	25,434	17,137	18,671	865	2,554	64,661
Additions	-	-	9	-	90	99
Disposals	-	-	(258)	-	-	(258)
Revaluation	-	-	281	-	-	281
At end of year	25,434	17,137	18,703	865	2,644	64,783
<i>Depreciation</i>						
At beginning of year	23,788	12,800	-	490	2,111	39,189
Charge for year	989	228	663	34	95	2,009
At end of year	24,777	13,028	663	524	2,206	41,198
<i>Net book value</i>						
At 31 March 2016	<b>657</b>	<b>4,109</b>	<b>18,040</b>	<b>341</b>	<b>438</b>	<b>23,585</b>
At 31 March 2015	1,646	4,337	18,671	375	443	25,472

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.

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 2016 is £27,966,000 (net of impairment: £25,977,000).

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

**Notes** (continued)

**4 Tangible fixed assets** (continued)

Charity	Land and buildings £000	Donated Assets £000	District heating scheme infra- structure £000	Total £000
<i>Cost</i>				
At beginning and end of year	16,275	9,159	17,137	42,571
<i>Depreciation</i>				
At beginning of year	15,750	8,038	12,800	36,588
Charge for year	75	914	228	1,217
At end of year	15,825	8,952	13,028	37,805
<i>Net book value</i>				
At 31 March 2016	<b>450</b>	<b>207</b>	<b>4,109</b>	<b>4,766</b>
At 31 March 2015	525	1,121	4,337	5,983

**5 Managed funds**

Group and Charity	2016 Market Value £000	2016 Cost £000	2015 Market Value £000	2015 Cost £000
Listed investments:				
UK Government securities	14,020	12,919	14,993	13,608
Other UK fixed interest	30,487	28,090	30,304	27,434
Other Overseas fixed interest	15,731	11,823	14,576	11,823
	<b>60,238</b>	<b>52,832</b>	59,873	52,865
UK equities	52,651	55,394	57,753	56,137
Overseas equities	52,905	30,852	58,878	33,296
Property units	32,669	26,554	27,457	22,680
	<b>138,225</b>	<b>112,800</b>	144,088	112,113
Total investments	198,463	165,632	203,961	164,978
Cash on deposit and in hand	1,218	1,511	3,050	3,137
	<b>199,681</b>	<b>167,143</b>	207,011	168,115

**Notes** (continued)

**5 Managed funds** (continued)

	2016 £000	2015 £000
<i>Reconciliation of market value of investments</i>		
Market value at beginning of year	207,011	188,929
Investments purchased	12,237	231,987
Investments sold	(11,529)	(212,531)
Total realised (losses)/gains on managed fund investments	(6,358)	458
Movement in investment managers' cash balances, accrued income and expenses	(1,680)	(1,832)
	199,681	207,011
	199,681	207,011

As at 31 March 2016, 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:

	2016 Market value £000	2016 Cost £000	2015 Market value £000	2015 Cost £000
Insight Investment Management	60,846	53,733	60,072	53,150
BlackRock Global Investors	105,567	86,257	116,642	89,443
Schroders Property Managers	33,268	27,152	30,297	25,522
	199,681	167,142	207,011	168,115
	199,681	167,142	207,011	168,115

**6 Programme-related investments**

	Group		Charity	
	2016 £000	2015 £000	2016 £000	2015 £000
Equity (below)	6,590	4,467	23,097	22,480
Loans (note 7)	201	251	201	251
	6,791	4,718	23,298	22,731
	6,791	4,718	23,298	22,731

**Notes** *(continued)*

**6 Programme-related investments** *(continued)*

<b>Equity – Group</b>	<b>Shares in subsidiary undertakings £000</b>	<b>Unlisted investments £000</b>	<b>Total £000</b>
<i>Cost</i>			
At beginning of year	5,157	626	5,783
Additions	2,250	-	2,250
	-----	-----	-----
Cost at end of year	7,407	626	8,033
	-----	-----	-----
<i>Provisions</i>			
At beginning of year	690	626	1,316
Provided in year	127	-	127
	-----	-----	-----
Provisions at end of year	817	626	1,443
	-----	-----	-----
<i>Net book value</i>			
<b>At 31 March 2016</b>	<b>6,590</b>	<b>-</b>	<b>6,590</b>
	=====	=====	=====
At 31 March 2015	4,467	-	4,467
	=====	=====	=====
<b>Equity – Charity</b>			<b>Shares in subsidiary undertakings £000</b>
<i>Cost</i>			
At beginning of year			24,637
Additions			2,250
Cancellation of shares – company capital reduction			(1,500)
			-----
Cost at end of year			25,387
			-----
<i>Provisions</i>			
At beginning of year			2,157
Provided in year			133
			-----
Provisions at end of year			2,290
			-----
<i>Net book value</i>			
<b>At 31 March 2016</b>			<b>23,097</b>
			=====
At 31 March 2015			22,480
			=====

**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:

	2016 SLAP £000	2016 SHEAP £000	2016 SCT R £000	2016 Total £000	2015 Total £000
<b>Turnover</b>	2,324	2,400	-	4,724	4,620
Cost of sales	(149)	(1,109)	-	(1,258)	(1,273)
<b>Gross profit</b>	2,175	1,291	-	3,466	3,347
Administration expenses	(108)	(798)	(6)	(912)	(877)
Revaluation of investment properties	282	-	-	282	-
Depreciation on investment properties	(663)	-	-	(663)	(663)
Provision made against equity investment	-	-	(127)	(127)	(247)
<b>Operating profit/(loss)</b>	1,686	493	(133)	2,046	1,560
Gain on disposal of investment properties	47	-	-	47	568
Interest receivable and similar income	99	4	-	103	27
<b>Profit/(loss) on ordinary activities before taxation</b>	1,832	497	(133)	2,196	2,155
Tax on profit/(loss) on ordinary activities	77	(20)	-	57	(20)
<b>Profit/(loss) on ordinary activities after taxation being profit/(loss) for the financial year</b>	1,909	477	(133)	2,253	2,135
Gift aid payment to Shetland Charitable Trust *	(2,143)	(438)	-	(2,581)	(2,533)
<b>Retained (loss)/profit for the year after Gift Aid payment</b>	(234)	39	(133)	(328)	(398)

During the year, the Directors of the subsidiary companies have reconsidered the presentation of Gift Aid payments in the financial statements. Previously Directors followed Charity Commission guidance, however during the year legal advice has been issued contradicting this. Consistent with the revised 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. This has resulted in an increase in the profit for the prior year by £2,533,000 to £2,135,000. This reclassification has no effect on net assets.

\* The amount disclosed as gift aid receipts from subsidiary undertakings in the Trust's statement of financial activities in relation to the prior year is £2,482,000, which differs to the above, as this includes £53,000 which was over accrued in the financial statements for the year ended 31 March 2014.

## 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:

	2016 Total £000	2015 Total £000
Cost of sales	1,258	1,272
Administration expenses	912	877
Revaluation of investment properties	(282)	-
Depreciation on investment properties	663	663
Tax (credit)/charge on profit on ordinary activities	(57)	20
Profit on disposal of investment properties	(47)	(568)
Interest receivable and similar income	(103)	(27)
	<u>2,344</u>	<u>2,237</u>

Included within the companies' profit/(loss) for the year is a total of £2,580,725 (2015: £2,533,436) 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:

	2016 SLAP £000	2016 SHEAP £000	2016 SCT R £000	2016 Total £000	2015 Total £000
Tangible fixed assets	18,387	432	-	18,819	19,490
Investments	-	-	6,590	6,590	4,467
Current assets	5,018	2,054	14	7,086	7,717
Current liabilities	(2,623)	(1,447)	(8)	(4,078)	(3,602)
Provisions for liabilities and charges	(177)	-	-	(177)	(255)
	<u>20,605</u>	<u>1,039</u>	<u>6,596</u>	<u>28,240</u>	<u>27,817</u>
Called up share capital	15,500	1,000	8,887	25,387	24,637
Profit and loss account	4,975	39	(2,291)	2,723	3,050
Revaluation reserve	130	-	-	130	130
	<u>20,605</u>	<u>1,039</u>	<u>6,596</u>	<u>28,240</u>	<u>27,817</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	2016 £000	2015 £000
Agricultural Ten Year Loan Scheme	206	303
Provisions for doubtful debts	(5)	(52)
	<u>201</u>	<u>251</u>

**Notes** *(continued)*

**8 Debtors**

	Group		Charity	
	2016 £000	2015 £000	2016 £000	2015 £000
Trade debtors	673	706	2	10
Amounts owing from subsidiary undertakings	-	-	2,574	2,168
Prepayments and accrued income	882	2,344	693	734
Other debtors:				
Programme-related loans	66	313	66	313
	<u>1,621</u>	<u>3,363</u>	<u>3,335</u>	<u>3,225</u>

**9 Cash and cash equivalents**

Group	2016 £000	2015 £000
Cash at bank and in hand	<u>9,477</u>	<u>8,600</u>

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

	Group		Charity	
	2016 £000	2015 £000	2016 £000	2015 £000
Trade creditors	263	249	141	109
Rents in advance	75	78	-	-
Corporation tax	-	73	-	-
Other tax and social security	12	15	12	15
Other creditors and accruals	1,440	1,241	178	143
Amounts owing to subsidiary undertakings	-	-	190	191
	<u>1,790</u>	<u>1,656</u>	<u>521</u>	<u>458</u>



**Notes** *(continued)*

**11 Provisions for liabilities and charges**

<b>Group</b>	<b>Deferred taxation £000</b>
At beginning of year	223
Credit for the year	(57)
Effect of increased tax rates	
	166
At end of year	166

The deferred tax liability arising within the Trust's subsidiary companies at the year-end of £166,000 (2015: £223,000) is analysed as follows:

	<b>2016 £000</b>	2015 £000
Accelerated capital allowances	166	223

**12 Expendable endowment**

	<b>Group Total £000</b>	<b>Charity Total £000</b>
At beginning of year	250,586	250,586
Outgoing resources	(1,217)	(1,217)
Losses in the year	(4,555)	(4,555)
	244,814	244,814
At end of year	244,814	244,814

**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	(8,406)	5,014	(1,625)	129	(4,888)
Net movement in funds	(2,324)	-	(89)	-	(2,413)
Actuarial gains	-	-	435	-	435
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	<b>(10,730)</b>	<b>5,014</b>	<b>(1,279)</b>	<b>129</b>	<b>(6,866)</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Charity	General funds £000	Pension reserve £000	Total unrestricted income funds £000
At beginning of year	(8,599)	(1,625)	(10,224)
Net incoming resources before other recognised gains and losses	(2,131)	(89)	(2,220)
Actuarial gains	-	435	435
	<hr/>	<hr/>	<hr/>
At end of year	<b>(10,730)</b>	<b>(1,279)</b>	<b>(12,009)</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

**14 Operating leases**

**Group**

Non-cancellable operating lease rentals are payable as follows:

	2016 £000	2015 £000
Less than one year	32	32
Between one and five years	49	49
More than five years	231	243
	<hr/>	<hr/>
	<b>312</b>	<b>324</b>
	<hr/> <hr/>	<hr/> <hr/>

During the year £32,177 was recognised as an expense in the consolidated statement of financial activities in respect of operating leases (2015: £32,177).

**15 Commitments**

*Capital commitments*

SHEAP's contractual commitments to purchase tangible fixed assets at the year-end were £Nil (2015: £53,773).

**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.

**Notes** *(continued)*

**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 2015 and was updated for FRS 102 purposes to 31 March 2016 by a qualified independent actuary.

	<b>2016</b>	2015
	<b>£000</b>	£000
Net pension liability defined benefit obligation	<b>(4,018)</b>	(4,350)
Fair value of plan assets	<b>2,868</b>	2,867
	<hr/>	<hr/>
Unfunded defined benefit obligations	<b>(1,150)</b>	(1,483)
	<b>(129)</b>	(142)
	<hr/>	<hr/>
Net pension liability	<b>(1,279)</b>	(1,625)
	<hr/> <hr/>	<hr/> <hr/>

Movements in present value of defined benefit obligation:

	<b>2016</b>	2015
	<b>£000</b>	£000
At 1 April	<b>4,492</b>	3,668
Current service cost	<b>107</b>	104
Interest cost	<b>144</b>	156
Actuarial (gains)/losses	<b>(487)</b>	729
Contributions by members	<b>26</b>	25
Benefits paid	<b>(135)</b>	(190)
	<hr/>	<hr/>
At 31 March	<b>4,147</b>	4,492
	<hr/> <hr/>	<hr/> <hr/>

Movements in fair value of plan assets:

	<b>2016</b>	2015
	<b>£000</b>	£000
At 1 April	<b>2,867</b>	1,873
Expected return on plan assets	<b>91</b>	78
Actuarial (losses)/gains	<b>(52)</b>	1,014
Contributions by employer	<b>71</b>	67
Contributions by members	<b>26</b>	25
Benefits paid	<b>(135)</b>	(190)
	<hr/>	<hr/>
At 31 March	<b>2,868</b>	2,867
	<hr/> <hr/>	<hr/> <hr/>

**Notes** *(continued)*

**17 Pension scheme** *(continued)*

Expenditure recognised in the statement of financial activities:

	<b>2016</b>	2015
	<b>£000</b>	£000
Current service cost	(107)	(104)
Interest cost	(53)	(78)
	(160)	(182)
	(160)	(182)

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

	<b>2016</b>	2015
	<b>£000</b>	£000
Charitable activities – support costs	(160)	(182)
	(160)	(182)
	(160)	(182)

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

	<b>2016</b>	2015
	<b>£000</b>	£000
Actuarial gains/(losses)	487	(729)
Return on assets attributed to the Charity excluding interest income	(52)	1,014
	435	285
	435	285

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

	<b>2016</b>	2015
	<b>Fair value</b>	Fair value
	<b>£000</b>	£000
Equities	2,209	2,293
Corporate bonds	287	287
Property	372	287
	2,868	2,867
	2,868	2,867
Actual return on plan assets	41	202
	41	202
	41	202

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:

	2016 %	2015 %
Discount rate	3.5	3.2
Future salary increases	4.2	4.3
Inflation / pension increase rate	2.2	2.4

In valuing the liabilities of the pension fund at 31 March 2016, mortality assumptions have been made as indicated below. The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

Current pensioner aged 65: 22.8 years (male), 23.8 years (female).

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

The Trust expects to contribute approximately £65,000 (2015: £69,000) to its defined benefit plans in the next financial year to 31 March 2016.

### 18 Related parties

In the year to 31 March 2016 the SCT Renewables Limited invested £2,250,000 (2015: £225,000) in Viking Energy Shetland LLP in which SCT Renewables Limited is a 90% partner.

In the year to 31 March 2016 Shetland Leasing and Property Developments Limited charged Viking Energy Shetland LLP £10,132 (2015: £10,320) in relation to office rental. The transactions were carried out at normal market rates. There was no balance due at 31 March 2016 (2015: £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 2016, assumptions have been made. The latest full actuarial valuation was carried out at 31 March 2015 and was updated for FRS 102 purposes to 31 March 2016 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.

### 20 Explanation of transition to FRS 102 from old UK GAAP

#### Group

As stated in note 1, these are the group's first financial statements prepared in accordance with FRS 102 and the Charities SORP FRS 102. In preparing the financial statements the group has adjusted amounts as follows:

- a) As disclosed in the investment properties accounting policy as set out in note 1.10, deferred tax requires to be provided on valuation gains. No such adjustment is required, as based on the current valuations at the balance sheet date, a net capital loss would be made should the investment properties be sold.
- b) Governance costs no longer require to be shown separately on the face of the statement of financial activities and they are now included within charitable activities.
- c) In relation to the pension scheme in accordance with FRS 102, net interest is determined by multiplying the net defined benefit liability by the discount rate, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. Previously under old UK GAAP, FRS 17 recognised the expected return on scheme assets and the unwinding of the discount on scheme liabilities. This has resulted in a transitional adjustment to the 2015 statement of financial activities resulting in an increase in the actuarial gain by £35,000 wholly offset by an increase in charitable activities of the equivalent amount. This adjustment has no impact on the net movement in funds and does not result in any adjustments to the balance sheet previously prepared in accordance with its old basis of accounting, UK GAAP.

#### Trust

As stated in note 1, these are the Trust's first financial statements prepared in accordance with FRS 102 and the Charities SORP FRS 102. In preparing the financial statements the group has adjusted amounts as follows:

- a) Governance costs no longer require to be shown separately on the face of the statement of financial activities and they are now included within charitable activities.

**Notes** *(continued)*

**20 Explanation of transition to FRS 102 from old UK GAAP** *(continued)*

**Trust** *(continued)*

b) In relation to the pension scheme in accordance with FRS 102, net interest is determined by multiplying the net defined benefit liability by the discount rate, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. Previously under old UK GAAP, FRS 17 recognised the expected return on scheme assets and the unwinding of the discount on scheme liabilities. This has resulted in a transitional adjustment to the 2015 statement of financial activities resulting in an increase in the actuarial gain by £35,000 wholly offset by an increase in charitable activities of the equivalent amount. This adjustment has no impact on the net movement in funds and does not result in any adjustments to the balance sheet previously prepared in accordance with its old basis of accounting, UK GAAP.







# Shetland Charitable Trust



Audit highlights memorandum and management letter  
Audit: year ended 31 March 2016  
23 August 2016



Shetland  
Charitable Trust

This report is presented under the terms of our audit engagement letter.

- Circulation of this report is restricted.
- The content of this report is based solely on the procedures necessary for our audit.

## **Basis of preparation**

We have prepared this Audit Committee Report (Report) in accordance with our audit engagement letter dated 23 March 2015.

## **Purpose of this report**

This Report is made to the Trustees of Shetland Charitable Trust in order to communicate matters of interest as required by ISAs (UK and Ireland), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

## **Restrictions on distribution**

This Report is subject to disclosure restrictions as set out in our Engagement Letter.

## **Limitations on work performed**

This Report is separate from our audit report and does not provide an additional opinion on the Trust's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors reporting to the Trust's members in accordance with the Charities and Trustees Investment (Scotland) Act 2005, and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

Our responsibility for other information in the Trust's Annual Report and Financial Statements does not extend beyond the financial information identified in our auditor's report. We have no obligation to perform any procedures to corroborate other information contained in those documents. However, prior to approval and signing we will continue to read the other information included in the Trustees' Report, and confirm that the information given, and the manner of its presentation, is materially consistent with the information, and its manner of presentation, with the consolidated financial statements.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

## **Status of our audit**

Our audit is substantially complete although matters communicated in this Report may change pending signature of our audit report.

# Executive summary

<b>Audit conclusions</b>		Page 4
<ul style="list-style-type: none"> <li>We anticipate issuing an unqualified audit opinion on the 2015-16 financial statements for the Trust and its subsidiaries, following their approval by the Trustees and shareholders.</li> </ul>		
<b>Accounting matters</b>		Page 4
<ul style="list-style-type: none"> <li>No significant accounting issues arose during the course of our audit of the Trust or the subsidiary companies.</li> <li>Overall, we are satisfied with the key accounting judgments taken. The most significant areas of judgment relate to the valuation of programme-related investments, and the valuation of the net pension liability under FRS 102.</li> </ul>		
<b>Auditing matters</b>		Page 4
<ul style="list-style-type: none"> <li>No significant audit issues arose during the course of our audit of Shetland Charitable Trust (SCT) or its subsidiaries.</li> <li>No significant regulatory or tax matters came to our attention during the course of our normal audit work.</li> </ul>		
<b>Systems and controls</b>		-
<ul style="list-style-type: none"> <li>No control deficiencies were identified only minor improvement points were identified and communicated to management.</li> <li>No major weaknesses in the financial systems were identified as a result of our audit procedures, although additional discussions were held relating to the segregation of duties, especially within the subsidiaries.</li> </ul>		
<b>Financial position</b>		Page 5
<ul style="list-style-type: none"> <li>The group recorded net outgoing resources of £3.6 million (2015: £3.8 million) and a net outflow of funds of £7.8 million (2015: net inflow of £16.7 million) after recognising losses on managed fund investments partially offset by actuarial gains on the pension scheme. The Trust recorded net outgoing resources of £3.4 million in the year, after charging £1.2 million depreciation in respect of its fixed assets. After accounting for other gains and losses in respect of managed fund investments and the pension scheme, the net outflow of funds was £7.6 million (2015: inflow of £16.8 million). The underlying financial position of the group remains strong, with net assets including the pension liability of £237.9 million (Trust: £232.8 million).</li> </ul>		
<b>Mandatory communications</b>		Appendix 1
<ul style="list-style-type: none"> <li>No significant matters to report in respect of (i) audit differences; (ii) auditor independence and non-audit fees; and (iii) management representation letter content.</li> </ul>		



# Financial statements and accounting

Our perspective on the preparation of the  
financial statements and key accounting  
judgements made by management



# Audit conclusions

The Trust has maintained appropriate arrangements over the preparation of its 2015-16 financial statements.

We have satisfactorily concluded our audit work and expect to issue an unqualified audit opinion on the financial statements of the Trust.

### Audit conclusions

Our audit work on the financial statements of the Trust is substantially complete, pending the receipt of management representations and the update of our subsequent events work to the date of signing of the financial statements. Following approval of the financial statements by the Trustees, we expect to be able to issue an unqualified audit opinion on the truth and fairness of the state of the group's and the Trust's affairs as at 31 March 2016, and of the group's and the Trust's incoming resources for the year then ended. There are no matters identified on which we are required to report by exception.

In gathering the evidence for our opinion we have:

- held initial planning meetings in March 2016 with management responsible for the processing of financial transactions;
- identified materiality for planning purposes at £200,000, and designed appropriate audit procedures according to our materiality assessment;
- during our onsite audit fieldwork in June and July 2016, performed a mixture of substantive and controls testing to ensure an efficient approach that covers the identified risks;
- reviewed assumptions and judgements made by management and considered these for appropriateness; and
- considered if the financial statements may be affected by fraud through discussions with senior management to gain a better understanding of their work in relation to prevention and detection of fraud with the potential to impact on the financial statements.

### Financial statements preparation

- Draft financial statement templates were agreed for Shetland Charitable Trust (SCT), SCT Renewables (SCTR) and Shetland Heat, Energy and Power Limited (SHEAP) before the start of the audit. Supporting documentation for subsidiary companies was provided at the agreed start of the audit with the exception of the information on property valuations for Shetland Leasing and Property Development Limited (SLAPD) which was not received until 15th August 2016, after the audit team were offsite.
- The standard of documentation and analysis to support the draft financial statements of the Trust and subsidiary companies was satisfactory and there was evidence of accountability and ownership of working papers across the finance teams.
- Unadjusted audit differences are included in the management representation letter and are explained further on page 12.
- Consolidated balances for the group financial statements were compiled after our initial period on site and are now finalised.
- Some presentational and textual changes were made to improve the overall disclosures within the financial statements as this is the first year of FRS 102 and the FRS 102 SORP.

## Financial statements and accounting

# Trust financial position

The Trust generated a net outflow in funds for the year of £7.6 million (2015: inflow of £16.8 million).

The decrease in funds on the prior year is primarily due to the poor financial performance of funds in global markets.

The figures shown relate solely to the Trust's financial position and are not consolidated.

### Financial position

The Trust's net movement in funds for the year was a £7.6 million outflow. This headline figure is significantly lower than the £16.8 million surplus in the prior year which was a result of a large gain on managed fund investments in the prior period.

#### Investment income and expenditure

Investment income has decreased by £371,000 in the year and there has been an unrealised loss on investment assets of £4.6 million from the Trust's managed funds which have decreased significantly in the year. At 31 March 2015 equity values were trading at historical highs which were not repeated at 31 March 2016.

Investment management costs have increased slightly in the year. The Trust pays most of its investment management costs directly through its fund transactions rather than by invoices.

#### Gift aid from subsidiaries

Gift aid in the year has increased by £99,000. This is a result of an improvement in the financial performance of SHEAP which is partially offset by a decrease in the financial performance of SLAPD.

#### Expenditure on charitable activities

Charitable activities expenditure declined by £566,000 compared to prior year, reflecting a reduction in direct scheme costs, due to the decision by the Trust to scrap the Christmas bonus scheme and a reduction in planned maintenance in line with budget. This is partially offset by an increase in admin expenses, largely as a result of one off professional fees for financial advice and input into securing a viable long term strategy for the trust. This will see the nature of investment held move from passive to a more active management strategy.

	2015-16 £000	2014-15 £000
Investment income	4,304	4,675
Gift aid from subsidiary companies	2,581	2,482
Rental and other income	958	1,053
<b>Total incoming resources</b>	<b>7,843</b>	<b>8,210</b>
Investment management costs	(520)	(497)
Provision made against equity investment	(133)	(193)
Charitable activities	(10,627)	(11,193)
<b>Total resources expended</b>	<b>(11,280)</b>	<b>(11,883)</b>
(Losses)/gains on investments assets	(4,555)	20,214
<b>Net expenditure/income</b>	<b>(7,992)</b>	<b>16,541</b>
Actuarial gain/(loss) in defined benefit pension scheme	435	285
<b>Net movement in funds</b>	<b>(7,557)</b>	<b>16,826</b>

Source: Draft financial statements

## Financial statements and accounting

# Trust financial position (continued)

The net movement in funds for the year of £7.6 million (2015: surplus of £16.8 million) has resulted in a slight reduction of the Trust's net asset position.

The figures shown relate solely to the Trust's financial position and are not consolidated.

### Financial position

#### Fixed assets

Tangible fixed assets have reduced in the year by £1.2 million, as the annual depreciation charge reduces their net book value. There have been no additions in the year. The Trust's managed funds have decreased by £7.3 million as a result of stock market movements in the year. Programme related investments have increased due to an increase in the investment in SCTR of £2.1 million (after provisions) partially offset by a decrease of £1.5 million in the investment in SLAPD due to the cancellation of 1,500,000 shares for which the trust received £1.5 million in cash.

#### Current assets and liabilities

Debtors are substantially in line with the prior year although there has been an increase in amounts owing from SHEAP as a result of increased gift aid due this year partially offset by a reduction in programme related loans as part of the ongoing plan to phase out the scheme. Creditors due within one year are substantially in line with the prior year with only slight increases across trade creditors and accruals due to timing of invoices.

#### Going concern

The Trust has net assets at the balance sheet date of £233 million, a decrease of £7.5 million from 2015. The Trust continues to maintain a strong cash balance and its subsidiary companies SLAPD and SHEAP remain profitable. SLAPD and SHEAP forecast further gift aid payments in the coming financial periods. SCT Renewables Limited made a loss of £133,000 in the year. The Trust has net current assets at the year end of £6.3 million. This is due to an increase in cash of £30,000 and an increase in debtors of £65,000 offset by an increase in creditors of £18,000.

	2015-16	2014-15
	£000	£000
Tangible fixed assets	4,766	5,983
Investments	199,681	207,011
Programme related investments	23,298	22,731
Debtors	3,335	3,270
Cash	3,525	3,495
Creditors	(521)	(503)
Pension liability	(1,279)	(1,625)
<b>Net assets</b>	<b>232,805</b>	<b>240,362</b>

Source: Draft financial statements

#### Pension liability

The net pension liability has decreased by £346,000 in the year, resulting from the updated actuarial valuation of the Trust's share of the Shetland Island Council defined benefit pension scheme. This comprises £435,000 of actuarial gains partially offset by £89,000 FRS 102 adjustment within Charitable activities.

## Financial statements

# Subsidiary companies

**Our audit work over SLAPD and SHEAP is now complete and an unqualified audit opinion has been issued.**

Area	Audit of subsidiary companies KPMG comment
Subsidiary companies' structure and operations – SLAPD and SHEAP	<p><b>Shetland Leasing and Property Development Limited ("SLAPD")</b></p> <p>SLAPD made an overall loss after tax of 234,000 in the year, but included in this figure is gift aid payments in the year to the Trust totalling £2.1 million in relation to the financial year 2015-16. Profit before gift aid and tax has decreased by £184,000 and this is mainly due to a reduction on profit on disposal of investment properties partially offset by an uplift in the fair value of investment properties.</p> <p>At 31 March 2016 the investment properties had an independent valuation which resulted in £281,000 uplift. We identified one audit misstatement in the course of our audit work which was a reallocation only and was corrected.</p> <p>Internal controls tested for the purposes of our financial statements audit appeared to be designed, implemented and operating effectively although we did note a lack of segregation of duties due to the size of the finance team.</p> <p><b>Shetland Heat Energy and Power Limited ("SHEAP")</b></p> <p>SHEAP made a profit before gift aid and tax of £497,000. A gift aid payment of £438,000 was made in respect of the profits generated. The company continues to operate at capacity numbers for customers and therefore the increase in revenue is a result of the favourable oil price in the year.</p> <p>There were no significant accounting judgements made by the directors in the preparation of the financial statements. We identified three audit misstatements during the course of our audit work, in addition to the final tax note adjustments made on completion of the draft tax computations for the year. These were reallocations only and were corrected.</p> <p>All misstatements were appropriately corrected for inclusion within the financial statements. Internal controls tested for the purposes of our financial statements audit appear to be designed, implemented and operating effectively.</p>



Financial statements

Subsidiary companies (continued)

Our audit work over SCTR is now complete and an unqualified audit opinion has been issued.

Our audit work over VES LLP is substantially complete pending completion of our finalisation procedures and the receipt of an appropriate representation letter.

Audit of subsidiary companies	
Area	KPMG comment
<b>Subsidiary companies' structure and operations</b> – Viking	<p><b>SCT Renewables Limited ("SCTR")</b></p> <p>SCTR represents the Trust's interests in Viking Energy Shetland LLP ("VES LLP"), which itself is the partner along with SSE Viking Limited in the Viking Energy project.</p> <p>SCTR made a loss of £133,000 in 2015-16, resulting from a provision in the company's investment in VES LLP of £127,000 and administration expenses of £6,000. No gift aid payment is expected to the Trust while the Viking project remains in its developmental stage but has progressed through a number of milestones during the course of the year. The company invested a further £2.25 million in VES LLP in the year.</p> <p><b>Viking Energy Shetland LLP ("VES LLP")</b></p> <p>VES LLP made a loss of £140,000 in the year, resulting from expenditure incurred in the year. The partnership invested a further £600,000 in Viking Energy Partnership ("VEP") in the year.</p>





# Appendices

1. Mandatory communications
2. Adjusted audit differences
3. Auditor independence
4. Management representation letter

# Appendix one

## Mandatory communications

Area	Key content	Reference
<p><b>Adjusted audit differences</b>  <b>Adjustments made as a result of our audit</b></p>	<p>There were a number of minor audit differences identified during the course of our audit work across the group that management decided to update the financial statements for. None of which had a material impact on results, they were in the main reallocations.</p>	-
<p><b>Unadjusted audit differences</b>  <b>Audit differences identified that we do not consider material to our audit opinion</b></p>	<p>There were two unadjusted differences within the trust. These differences relate to holiday pay accruals which are now required to be recorded under FRS 102. They are considered to be immaterial and have been included within the SCT management representation letter.</p>	Appendix 2
<p><b>Draft management representation letter</b>  <b>Proposed draft of letter to be issued by the Trust to KPMG prior to audit sign-off</b></p>	<p>We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2016.</p>	Appendix 4
<p><b>Related parties</b></p>	<p>There were no significant matters that arose during the audit in connection with the entity's related parties.</p>	-
<p><b>Other matters warranting attention by those charged with governance</b></p>	<p>There were no matters to report in respect of material weaknesses or questions of management integrity or fraud involving management.</p>	-
<p><b>Disagreement with management</b></p>	<p>There have been no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our auditors' report on the Group's consolidated financial statements. We encountered no fundamental difficulties in dealing with management in performing the audit.</p>	-
<p><b>Consultation with other accountants</b></p>	<p>To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the past year that were subject to the requirements of applicable regulatory guidance.</p>	-

## Appendix two

# Unadjusted audit differences

Under UK auditing standards (ISA UK&I 260) we are required to provide those charged with governance with a summary of unadjusted audit differences identified during the course of our audit.

Unadjusted audit differences (£)				
No.	Detail	Statement of financial activities Dr/(Cr)	Balance sheet Dr/(Cr)	Comments
1	Dr SOFA Cr Accruals	26,127	(26,127)	being the holiday pay obligation for Trust employees at year end
2	Dr SOFA Cr Accruals	25,950	(25,950)	being the holiday pay obligation for employees only working on SHEAP at year end

## Appendix three

# Auditor independence

**Auditing Standards require us to consider and confirm formally our independence and related matters in our dealings with the Trust. We have appropriate procedures and safeguards in place to enable us to make the formal confirmation in our letter included opposite.**

To the Board of Directors

### Assessment of our objectivity and independence as auditor of Shetland Charitable Trust (the Trust)

Professional ethical standards require us to communicate to you as part of planning all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of partner and the audit team. This letter is intended to comply with this requirement although we will communicate any significant judgements made about threats to objectivity and independence and the appropriateness of safeguards put in place.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

### Independence and objectivity considerations relating to the provision of non-audit services

#### Summary of fees

We have considered the fees charged by us to the company and its affiliates for professional services provided by us during the reporting period.

Total fees charged by us for the period ended 31 March 2016 can be analysed as follows:

	Current year £,000	Prior year £,000
Audit of Trust	15.0	15.0
Audit of Subsidiaries	15.8	15.8
Total Audit *	30.8	30.8
Tax Compliance Services	8.9	8.9
Other non-audit services	9.0	2.2
Total non-audit services	17.9	11.1
Total Fees *	48.7	41.9

\* Note this does not include the audit fee charged to the joint venture Viking Energy Shetland LLP

The ratio of non-audit fees to audit fees for the year was 0.58:1.

## Appendix three

# Auditor independence

**Auditing Standards require us to consider and confirm formally our independence and related matters in our dealings with the Trust. We have appropriate procedures and safeguards in place to enable us to make the formal confirmation in our letter included opposite.**

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the following table.

*Analysis of Non-audit services for the year ended 31 March 2016*

Disclosure	Description of scope of services	Principal threats to Independence	Safeguards Applied	Basis of fee [ie fixed time and materials/contingent]	Value of Services Committed but not yet delivered
Tax compliance	Limited assistance with the completion of the corporation tax return	Self review and management	Work performed by a team separate from the audit team. Services do not result in any material judgements within the financial statements. Management remain responsible for any decisions.	Fixed fee	£8,925
Other non-audit	Includes XBRL tagging of financial statements (£3,000) and assistance with GAAP transition exercise (£6,000)	Self review and management	Services do not result in any material judgements within the financial statements. Management remain responsible for any decisions. XBRL work performed by a team separate from the audit team.	Fixed fee	£9,000

### Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the members of the LLP and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP



# Management representation letter

KPMG LLP  
191 West George Street  
Glasgow  
G2 2LJ

[ ] 2016

Dear Sirs

This representation letter is provided in connection with your audit of the Group and parent Trust financial statements of Shetland Charitable Trust ("the Trust"), for the year ended 31 March 2016, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the state of the Group and parent Trust's affairs as at 31 March 2016 and of the Group's surplus or deficit for the financial year then ended;
- ii. whether the financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice (including Charities SORP FRS 102: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)); and
- iii. whether the financial statements have been prepared in accordance with the Charities Act 2011.

These financial statements comprise the Group and Parent Trust Balance Sheet, the Group Statement of Financial Activities, the Group Cash Flow Statement, and notes, comprising a summary of significant accounting policies and other explanatory notes.

The Trustees confirm that the representations they make in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Trustees confirm that, to the best of their knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing themselves:

#### Financial statements

1. The Trustees have fulfilled their responsibilities, as set out in the terms of the audit engagement dated 23 March 2015 and variation letter dated 9 February 2016, for the preparation of financial statements that:

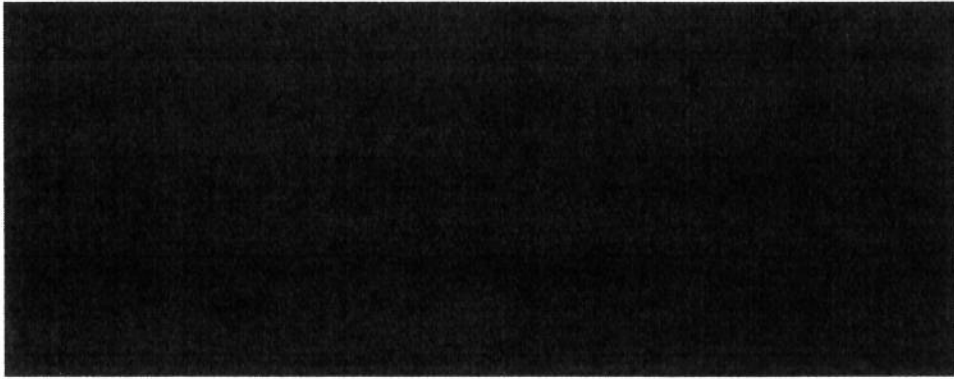
- i. give a true and fair view of the state of the state of the Group and parent Trust's affairs as at the end of its financial year and of the Group's surplus or deficit for that financial year;
  - ii. have been properly prepared in accordance with UK Generally Accepted Accounting Practice ("UK GAAP") (including Charities SORP FRS 102: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)); and
  - iii. have been prepared in accordance with the Charities Act 2011.
- The financial statements have been prepared on a going concern basis.

The Board of Trustees confirm that the Trust meets the definition of a qualifying entity and meets the criteria for applying the disclosure exemptions with Financial Reporting Standard 102.

In particular the Board of Trustees confirms that it has notified its members in writing and they have not objected to the use of the permitted disclosure exemptions that the Board of Trustees has taken when preparing the financial statements applying Financial Reporting Standard 102.

2. Measurement methods and significant assumptions used by the Trustees in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which section 32 of FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

# Management representation letter (continued)



**Information provided**

5. The Trustees have provided you with:
  - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - additional information that you have requested from the Trustees for the purpose of the audit; and
  - unrestricted access to persons within the Group and the Trust from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Trustees confirm the following:

- i. The Trustees have disclosed to you the results of their assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

ii. The Trustees have disclosed to you all information in relation to:

- a) Fraud or suspected fraud that it is aware of and that affects the Trust and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements; and
- b) allegations of fraud, or suspected fraud, affecting the Trust's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Trustees acknowledge their responsibility for such internal control as they determine necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Trustees acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Trustees have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Trustees have disclosed to you and have appropriately accounted for and/or disclosed in the financial statements, in accordance with section 21 of FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Trustees have disclosed to you the identity of the Group and the Trust's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with section 33 of FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them and as defined in FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

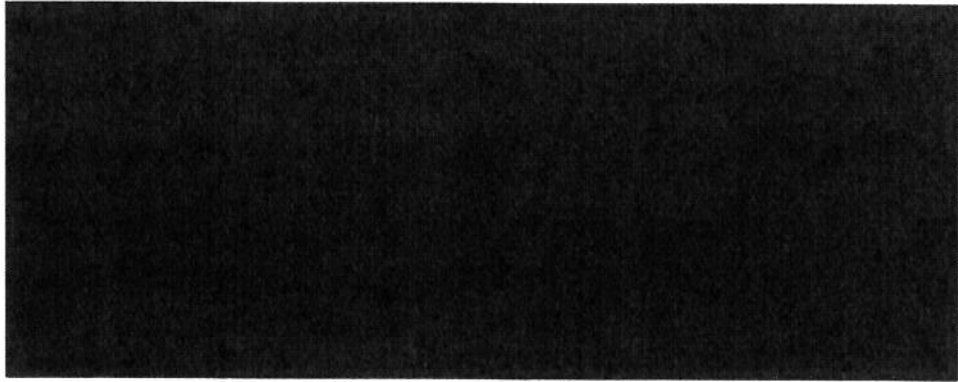
11. The Trustees confirm that:

- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Trust's ability to continue as a going concern as required to provide a true and fair view.
- b) No events or circumstances have been identified that may cast significant doubt on the ability of the Group and Trust to continue as a going concern.

12. On the basis of the process established by the Trustees and having made appropriate enquiries, the Trustees are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with their knowledge of the business and in accordance with the requirements of section 28 of FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.



# Appendix four Management representation letter (continued)



The Trustees further confirm that:

- a) all significant retirement benefits, including any arrangements that are:
- statutory, contractual or implicit in the employer's actions;
  - arise in the UK and the Republic of Ireland or overseas;
  - funded or unfunded; and
  - approved or unapproved,
- have been identified and properly accounted for; and
- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Trustees on [date].

Yours faithfully

[Chair of Trustees]

[Trustee]

[Optional cc: Audit Committee]

## Appendix to the Trustees' Representation Letter of Shetland Charitable Trust: Definitions

### **Criteria for applying the disclosure exemptions within Financial Reporting Standard 102**

- The Trust's members have been notified in writing about, and do not object to, the use of the disclosure exemptions
- The Trust discloses in the notes to its financial statements:
  - A brief narrative summary of the disclosure exemptions adopted; and
  - The name of the parent of the group in whose consolidated financial statements its financial statements are consolidated, and from where those financial statements may be obtained

### **Financial Statements**

A complete set of financial statements comprises:

- Group and parent Trust Balance Sheet as at the end of the period;
- Group Statement of Financial Activities for the period;
- Group Cash Flow Statement for the period; and
- notes, comprising a summary of significant accounting policies and other explanatory information.

### **Material Matters**

Certain representations in this letter are described as being limited to matters that are material.

FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland states that:

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or combination of both, could be the determining factor.

# Management representation letter (continued)

## Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

## Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

## Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

## Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
  - i. has control or joint control over the reporting entity;
  - ii. has significant influence over the reporting entity; or
  - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

- b) An entity is related to a reporting entity if any of the following conditions apply:
  - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - iii. Both entities are joint ventures of the same third party.
  - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - vi. The entity is controlled, or jointly controlled by a person identified in (a).
  - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

## Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.



The contacts at KPMG in connection with this report are:

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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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Chief Executive: Ann Black

Registered Charity Number SC027025

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mail@shetlandcharitabletrust.co.uk  
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If calling please ask for:  
Raymond Mainland  
Direct Dial: 01595 744994

Our Ref: BH/TA2  
Your Ref:

Date: 15 September 2016

Dear Sirs,

This representation letter is provided in connection with your audit of the Group and parent Trust financial statements of Shetland Charitable Trust ("the Trust"), for the year ended 31 March 2016, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the state of the Group and parent Trust's affairs as at 31 March 2016 and of the Group's surplus or deficit for the financial year then ended;
- ii. whether the financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice (including Charities SORP FRS 102: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)); and
- iii. whether the financial statements have been prepared in accordance with the Charities Act 2011.

These financial statements comprise the Group and Parent Trust Balance Sheet, the Group Statement of Financial Activities, the Group Cash Flow Statement, and notes, comprising a summary of significant accounting policies and other explanatory notes.

The Trustees confirm that the representations they make in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Trustees confirm that, to the best of their knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing themselves:

### **Financial statements**

1. The Trustees have fulfilled their responsibilities, as set out in the terms of the audit engagement dated 23 March 2015 and variation letter dated 9 February 2016, for the preparation of financial statements that:

- i. give a true and fair view of the state of the Group and parent Trust's affairs as at the end of its financial year and of the Group's surplus or deficit for that financial year;
- ii. have been properly prepared in accordance with UK Generally Accepted Accounting Practice ("UK GAAP") (including Charities SORP FRS 102: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)); and
- iii. have been prepared in accordance with the Charities Act 2011.

The financial statements have been prepared on a going concern basis.

The Board of Trustees confirm that the Trust meets the definition of a qualifying entity and meets the criteria for applying the disclosure exemptions with Financial Reporting Standard 102.

In particular the Board of Trustees confirms that it has notified its members in writing and they have not objected to the use of the permitted disclosure exemptions that the Board of Trustees has taken when preparing the financial statements applying Financial Reporting Standard 102.

2. Measurement methods and significant assumptions used by the Trustees in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which section 32 of FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

#### **Information provided**

5. The Trustees have provided you with:
  - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - additional information that you have requested from the Trustees for the purpose of the audit; and
  - unrestricted access to persons within the Group and the Trust from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Trustees confirm the following:

- i) The Trustees have disclosed to you the results of their assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii) The Trustees have disclosed to you all information in relation to:
  - a) Fraud or suspected fraud that it is aware of and that affects the Trust and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements; and
  - b) allegations of fraud, or suspected fraud, affecting the Trust's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Trustees acknowledge their responsibility for such internal control as they determine necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Trustees acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Trustees have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Trustees have disclosed to you and have appropriately accounted for and/or disclosed in the financial statements, in accordance with section 21 of FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Trustees have disclosed to you the identity of the Group and the Trust's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with section 33 of FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them and as defined in FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

11. The Trustees confirm that:

- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Trust's ability to continue as a going concern as required to provide a true and fair view.



b) No events or circumstances have been identified that may cast significant doubt on the ability of the Group and Trust to continue as a going concern.

12. On the basis of the process established by the Trustees and having made appropriate enquiries, the Trustees are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with their knowledge of the business and in accordance with the requirements of section 28 of FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The Trustees further confirm that:

- a) all significant retirement benefits, including any arrangements that are:
- statutory, contractual or implicit in the employer's actions;
  - arise in the UK and the Republic of Ireland or overseas;
  - funded or unfunded; and
  - approved or unapproved,
- have been identified and properly accounted for; and
- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Trustees on *15 September 2016*.

Yours faithfully,

Bobby Hunter  
Chairman, SCT



**Criteria for applying the disclosure exemptions within Financial Reporting Standard 102**

- The Trust's members have been notified in writing about, and do not object to, the use of the disclosure exemptions
- The Trust discloses in the notes to its financial statements:
  - A brief narrative summary of the disclosure exemptions adopted; and
  - The name of the parent of the group in whose consolidated financial statements its financial statements are consolidated, and from where those financial statements may be obtained

**Financial Statements**

A complete set of financial statements comprises:

- Group and parent Trust Balance Sheet as at the end of the period;
- Group Statement of Financial Activities for the period;
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**Fraud**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

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Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

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  - iii. Both entities are joint ventures of the same third party.
  - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - vi. The entity is controlled, or jointly controlled by a person identified in (a).
  - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

## **Related party transaction:**

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

**Appendix to the Trustees' Representation Letter of Shetland Charitable Trust: Audit Misstatements**

Dr Statement of financial activities	26,127
Cr Accruals	26.127

Being the holiday pay obligation for the Trust employees at year end.

Dr Statement of financial activities	26,127
Cr Accruals	26.127

Being the holiday pay obligation for employees only working on SHEAP at year end.





## REPORT

To: Shetland Charitable Trust

15 September 2016

From: Chief Executive

Report: CT1609038

### Risk Management – Annual Review

#### 1 Introduction

- 1.1 This report requests Trustees to approve the recommendation by the Audit & Governance Advisory Committee to adopt the revised Strategic Risk Management Assessment.

#### 2 Background

- 2.1 The Audit & Governance Advisory Committee have met various times since the last Risk Management Assessment was reported to Trustees in September 2015 (CT1509043). The Committee have reviewed the risks to the Trust and updated the Strategic Risk Management Assessment.
- 2.2 Each Advisory Committee has taken responsibility for the risks assigned to them. They have adopted this as a standing item at their meetings and have updated the risks as they see necessary.
- 2.3 The most recent Statement of Recommended Practice (SORP) for the preparation of the Trust's Annual Report and Accounts requires the Trust to provide:

"... a description of the principal risks and uncertainties facing the charity and its subsidiary undertakings, as identified by the charity trustees, together with a summary of their plans and strategies for managing those risks."
- 2.4 Although many aspects of Risk Management are already imbedded in the management of the Trust's business, it is considered good practice to adopt a formal, systematic evaluation of risk on a regular basis.

#### 3 Risk Management Framework

- 3.1 The Strategic Risk Management Assessment for the Trust, prepared by the Audit & Governance Advisory Committee, is included at Appendix 1.
- 3.2 Appendix 1 also explains the potential impact of each of the risks identified, should that event occur.

- 3.3 The next step is to consider the likelihood of that potential risk occurring. The definitions used are explained in Appendix 1 and are adopted from a formally recognised risk matrix.
- 3.4 It is then necessary to think about how severe the impact will be on the business of the Trust, should the event occur. The severity of impact has been categorised from “insignificant” to “catastrophic” using the following classifications:
- Insignificant
  - Minor
  - Significant
  - Major
  - Catastrophic
- 3.5 The Risks are then plotted on a Residual Risk Rating Matrix and, for simplicity, the matrix classifies risks as either red, amber or green. The degree of urgency and importance increases as you move along the matrix from a “rare and insignificant” risk to an “almost certain catastrophic” risk. This is the scoring system that was used.

**Residual Risk Rating Matrix: Framework**

		<b>F R E Q U E N C Y</b>				
		Rare	Unlikely	Possible	Likely	Almost Certain
<b>S E V E R E R I S T Y</b>	Insignificant	1	2	3	4	5
	Minor	2	4	6	8	10
	Significant	3	6	9	12	15
	Major	4	8	12	16	20
	Catastrophic	5	10	15	20	25

**4. Present Position**

- 4.1 Currently, the Trust’s Strategic Risk Management Assessment is reviewed at each Advisory Committee meeting, and annually at Trustee level. The risks identified are categorised below. Each risk is numbered, and can be identified and cross referenced to the grid below.

## Residual Risk Rating Matrix: Shetland Charitable Trust

S E V E R E I T Y	F R E Q U E N C Y				
	Rare	Unlikely	Possible	Likely	Almost Certain
Insignificant	0	0	0	0	0
Minor	0	0	0	0	0
Significant	Risk 3	0	Risks 2,5	Risk 4	0
Major	0	Risk 1	0	0	0
Catastrophic	0	0	0	0	0

4.2 The Trust has identified 5 main potential risks, which may impact on the business of the Trust. The General Purposes Advisory Committee have recommended that Risk 4 be changed from Amber to Red. The Audit and Governance Advisory Committee have recommended Risk 3 be changed from Amber to Green.

4.3 Priority will be given to tackling any issue which has a high likelihood of occurring and a significant impact on service delivery should it occur.

4.4 The Advisory Committees have already put a number of measures in place to minimise risk since the last review and as these develop they will be reflected accordingly.

### 5. Future Reviews

5.1 The Audit and Governance Committee have overall responsibility for reviewing the Trust's Strategic Risk Management Assessment.

5.2 Each risk identifies the Lead Committee for that particular risk and each of these Committees take responsibility for ensuring the risk is reviewed regularly.

5.3 Trustees are planning to have a Trustee workshop later in the year to review all the strategic risks collectively.

### 6 Financial Implications

6.1 There are no financial implications associated with this report.

### 7. Recommendations

7.1 Trustees are asked to accept the recommendations of the Audit & Governance Advisory Committee and approve the Strategic Risk Management Assessment set out in Appendix 1.





<p><b>Objective(s):</b> To ensure that the Charitable Trust operates with good Governance</p> <p><i>"To appoint the CE and auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities include setting the Trust's strategic aims, providing the leadership to put them into effect, ensuring that there is appropriate management of the Trust"</i></p>	<p><b>Risk Owner: Trustees</b>  <b>Lead Committee: Audit and Governance</b></p>
<p><b>Risk:</b>  <b>Poor Governance - the current processes in place don't ensure consistent decision making by Trustees</b></p> <p><b>Risk Rating:</b>                  (Likelihood x consequence):                  Unlikely x Major= Score of 8</p> <p>Initial: AMBER      Current: AMBER      Target: GREEN</p> <p><b>Controls (what are we currently doing about mitigating the risk?)</b>                  Trust Deed and Administrative Regulations                  New structure in place                  Appointment process for Trustees (Induction)                  Checks being Accountable (owning decisions)                  Checks and Balances in place (see assurance section below)                  Code of Practice (Conduct)                  Training and Education delivered and available for Trustees</p> <p><b>Actions required to improve control (what more have we identified we should do?)</b>                  See above weaknesses/gaps – procedure to be finalised</p>	<p><b>Date last reviewed: September 2016</b>  <b>Date review due: September 2017</b></p> <p><b>Rationale for current score:</b>                  Failure in this area would have an impact on public perception of the trustees ability to do their role as Trustees</p> <p><b>Rationale for target score:</b>                  While the impact of failures could have a major impact on public perception the aim is to reduce the likelihood of this occurring.</p> <p><b>Weaknesses or gaps in controls (where are we failing to put controls/systems in place or failing to make them effective?)</b>                  Need to formalise the recruitment procedure for Trustees                  Recruitment process completed and new Trustees recruited during 2015                  Annual Report to full Trust (assurance/exception reporting)</p>
<p><b>Internal Assurances (How do we know controls are in place and functioning as expected/are of sufficient quality?)</b>                  Performance Appraisals                  Audits</p>	<p><b>Timescale</b>      <b>Lead</b>                  complete      CE</p> <p><b>External Assurances (Are we receiving independent assurances?)</b>                  OSCAR                  Turcan Connell – scrutinise audit papers/minutes and actions to ensure decisions being made are followed through                  Clean bill of Health from Auditors                  Companies House – Annual Accounts</p> <p><b>Weaknesses or gaps in assurance (where are we failing to gain evidence that the controls we place reliance on are effective/where do we have gaps?)</b>                  How do Trustees understand complaints and issues inc appeals and litigation</p> <p><b>Next steps (- is there more we can do to focus efforts on this issue)</b></p> <ul style="list-style-type: none"> <li>To look at what could go into an annual assurance/exception report – CE</li> <li>To annually report on performance to Audit &amp; Governance Committee inc complaints/sickness absence – CE</li> </ul>
<p><b>Current performance (with these actions taken, how serious is the problem?)</b>                  Assessment of performance GOOD</p>	

## Charitable Trust Assurance Framework – Risk 2

<p><b>Objective(s):</b> To ensure that the Trust makes good Investment Decisions                  Takes into account – ensure that we live within means and spend income wisely, make the right investment decisions, and deal with disbursements</p>		<p><b>Risk Owner:</b> Trustees</p>	
<p><b>Risk:</b>                  Poor Investment Decisions</p>		<p><b>Lead Committee:</b> Investment</p>	
<p><b>Risk Rating:</b>                  (Likelihood x consequence):                  Possible x Significant = 9</p>		<p><b>Date last reviewed:</b> September 2016</p>	
<p>Initial: RED      Current: AMBER      Target: GREEN</p>		<p><b>Date review due:</b> September 2017</p>	
<p><b>Controls (what are we currently doing about mitigating the risk?)</b>                  Fund managers appointed through appropriate tender routes                  Investment committee in place                  Market forces have a play in risk decisions                  Trust Investment Strategy the asset allocation                  Trustees receive regular update reports                  Budget Strategy – don't spend more than earn in place                  WM Company and Noble Grossart appointed as advisors                  Update from the chair of each advisory committee at each Trust Meeting                  Agenda from each advisory committee meeting shared with all Trustees</p>		<p><b>Rationale for current score:</b>                  Failure in this area would have an impact on public perception of the Trustees ability to do their role as Trustees</p> <p><b>Rationale for target score:</b>                  While the impact of failures could have a major impact on public perception the aim is to reduce the likelihood of this occurring.</p> <p><b>Weaknesses or gaps in controls (where are we failing to put controls/systems in place or failing to make them effective?)</b></p>	
<p><b>Actions required to improve control (what more have we identified we should do?)</b>                  Update Investment Strategy</p>		<p><b>Timescale</b>      <b>Lead</b></p> <p>Complete      CE</p>	
<p><b>Internal Assurances (How do we know controls are in place and functioning as expected/are of sufficient quality?)</b>                  Investment committee                  Terms of Reference                  Objectives/workplans of each Committee</p>		<p><b>External Assurances (Are we receiving independent assurances?)</b>                  Fund Managers and Process of Appointment                  Independent Financial Advisor appointment for internal investment advice</p> <p><b>Weaknesses or gaps in assurance (where are we failing to gain evidence that the controls we place reliance on are effective/where do we have gaps?)</b></p> <ul style="list-style-type: none"> <li>Requires Investment and Disbursement Strategy (The Disbursement and the Investment review is now complete)</li> <li>Look at how decisions are made (ethical/legal)</li> </ul>	
<p><b>Current performance (with these actions taken, how serious is the problem?)</b>                  Assessment of performance GOOD</p>		<p><b>Next steps (- is there more we can do to focus efforts on this issue)</b>                  Fund transfer to new managers</p>	

# Charitable Trust Assurance Framework – I < 3

Objective(s): To ensure that the Trust maintains Charitable Status and complies with relevant legislation		Risk Owner: Trustees
Risk: Loss of Charitable Status –		Lead Committee: Audit & Governance
Risk Rating:		Date last reviewed: September 2016
		Date review due: September 2017
<p><b>Rationale for current score:</b> Failure in this area would have an impact on the functioning and reputation of the Trust and is therefore extremely serious. The Trust has excellent controls to reduce the likelihood of this occurring to rare and the risk rating to green.</p> <p><b>Rationale for target score:</b> While the impact of failures could have a major impact on the Trust, the aim is to reduce the likelihood of this occurring.</p> <p><b>Weaknesses or gaps in controls (where are we failing to put controls/systems in place or failing to make them effective?)</b></p> <ul style="list-style-type: none"> <li>• Risk at not complying with legislation unintentionally</li> <li>• Legislation may change and inability to respond within appropriate timescales</li> </ul>		
<p><b>Initial:</b> RED      <b>Current:</b> GREEN      <b>Target:</b> GREEN</p> <p><b>Controls (what are we currently doing about mitigating the risk?)</b></p> <ul style="list-style-type: none"> <li>• OSCR</li> <li>• Trust Deed</li> <li>• Admin Regs</li> <li>• Finance Regs</li> </ul>		
<b>Actions required to improve control (what more have we identified we should do?)</b>		
Continue professional relationship with OSCR		Timescale      Lead Ongoing      CE
Continue professional relationship with Turcan Connell		Ongoing      CE
Continue to timeously respond to changes in legislation		Ongoing      CE
<b>Internal Assurances (How do we know controls are in place and functioning as expected/are of sufficient quality?)</b>		
<ul style="list-style-type: none"> <li>• Good communication links with OSCR</li> <li>• Good communication links with Turcan Connell</li> <li>• Good communication links with KPMG</li> <li>• Good Communication links with Scottish Government</li> <li>• Good Communication links with Trustees</li> </ul>	<b>External Assurances (Are we receiving independent assurances?)</b> <ul style="list-style-type: none"> <li>• Turcan Connell updates</li> <li>• OSCR updates</li> <li>• Annual Report</li> <li>• Newsletters</li> <li>• Email updates</li> </ul>	
<b>Weaknesses or gaps in assurance (where are we failing to gain evidence that the controls we place reliance on are effective/where do we have gaps?)</b>		
	<ul style="list-style-type: none"> <li>• Staff training and awareness</li> <li>• Knowledge and awareness of Trustees</li> <li>• Knowledge and awareness of Audit &amp; Governance Committee</li> </ul>	
<b>Current performance (with these actions taken, how serious is the problem?)</b>		
Assessment of performance GOOD	Next steps (- is there more we can do to focus efforts on this issue) Continue to ensure these risks remain priority in all Trust discussions and decisions.	

**Charitable Trust Assurance Framework – Part 4**

Objective(s): To be well regarded in the Local Community		<b>Risk Owner: Trustees</b>	
		<b>Lead Committee: General Purposes</b>	
<b>Risk:</b> Poor Reputation		<b>Date last reviewed: September 2016</b>	
		<b>Date review due: September 2017</b>	
<b>Risk Rating:</b>  (Likelihood x consequence): Likely and Significant = 12  Initial: AMBER      Current: RED      Target: GREEN	<b>Rationale for current score:</b>  Failure in this area would have an impact on the sustainability of the Trust and is therefore RED. There is an uncertainty around how the community views the Trust at this time. Although the level of formal complaints from the community is minimal. This was increased to RED as the GPAC agreed at their meeting on 04/03/16 that the frequency was "likely".  <b>Rationale for target score:</b>  While failure could have a serious impact on the reputation of the Trust, Trustees intend to measure the external perception of the Trust and work towards improving this.		
<b>Controls (what are we currently doing about mitigating the risk?)</b>  Code of Conduct General Purposes Committee Collective and Individual Behaviour both within and outwith the Trust Chairman's role Having a Communications Strategy	<b>Weaknesses or gaps in controls (where are we failing to put controls/systems in place or failing to make them effective?)</b>  Sharing good news stories Potential Breach of Code of Conduct Media training Skills matrix Internal/External Communications Strategy Media Strategy		
<b>Actions required to improve control (what more have we identified we should do?)</b>  Look at multi agency media training			<b>Timescale</b> <b>Lead</b>
Ongoing media advice and training for Chair and Chair of Committees	ongoing		CE
Continued legal advice in relation to Code of Conduct for Trustees	Ongoing		CE
<b>Current performance (with these actions taken, how serious is the problem?)</b>  Assessment of performance is linked to number of complaints. Positive engagement with funded bodies & community (Community Councils and community groups)	<b>External Assurances (Are we receiving independent assurances?)</b>  Partner Agency engagement OSCR Media Coverage Funded Bodies 360 Feedback  <b>Next steps (- is there more we can do to focus efforts on this issue)</b> <b>Consider core elements of communication strategy and how we communicate outcomes/decisions to media &amp; population</b> Update Admin Regs in relation to Code of Conduct and conflicts - complete 360 Feedback Examine Trustee role as Trust Champions		



## Charitable Trust Assurance Framework – Risk 5

<b>Objective(s):</b> To ensure good governance of SCT's subsidiary companies		<b>Risk Owner: Trustees</b> <b>Lead Committee: Audit and Governance Committee</b>	
<b>Risk: Poor operation of subsidiary companies resulting in loss of earnings to Trust</b>		<b>Date last reviewed: September 2016</b> <b>Date review due: September 2017</b>	
<b>Risk Rating:</b> (Likelihood x consequence): Possible x significant = 9  Initial: RED      Current: AMBER      Target: GREEN		<b>Rationale for current score:</b> Relatively new processes which require to be bedded in. Furthermore, the recent turnover in Non-Executive Directors.  <b>Rationale for target score:</b> Stable, functioning, appropriately skilled and experienced Non-Executive Directors on the Boards of subsidiary companies.	
<b>Controls (what are we currently doing about mitigating the risk?)</b> <ul style="list-style-type: none"> <li>• Board of Non-Executive Directors appointed for each subsidiary company</li> <li>• Subsidiary companies working independently from SCT</li> <li>• Regular update reports to Trustees</li> <li>• Targets on Gift Aid</li> </ul>		<b>Weaknesses or gaps in controls (where are we failing to put controls/systems in place or failing to make them effective?)</b> <ul style="list-style-type: none"> <li>• Change management process still ongoing for SHEAP</li> <li>• Changes in directorships</li> </ul>	
<b>Actions required to improve control (what more have we identified we should do?)</b>  Ensure appropriate skilled and experienced Directors are recruited  Ensure Directors are monitored through performance of companies		<b>Timescale</b> March 2015	<b>Lead</b> CE
<b>Internal Assurances (How do we know controls are in place and functioning as expected/are of sufficient quality?)</b> <ul style="list-style-type: none"> <li>• Regular reports on Operational Activities</li> <li>• Regular reports on Financial Performance</li> </ul>		<b>External Assurances (Are we receiving independent assurances?)</b> <ul style="list-style-type: none"> <li>• Unqualified accounts</li> <li>• Clean audit sheet</li> <li>• Complying with all legislation (i.e. H&amp;S)</li> </ul>	
<b>Current performance (with these actions taken, how serious is the problem?)</b> <ul style="list-style-type: none"> <li>• Monitoring and continuing to manage ongoing change management process</li> </ul>		<b>Next steps (- is there more we can do to focus efforts on this issue)</b> <ul style="list-style-type: none"> <li>• Complete Review of Governance of SHEAP</li> <li>• Ensure new Non-Executive Directors are appointed, inducted and supported to be effective on Boards they are appointed to</li> <li>• Ensure sufficient level of ongoing knowledge by all Trustees in the performance of subsidiary companies</li> </ul>	

**SHETLAND CHARITABLE TRUST – SCORING FRAMEWORK**

Descriptor	Description of Frequency
Almost certain	I would not be at all surprised if this happened within the next few months
Likely	I think this could occur sometime in the coming year or so
Possible	I think this could maybe occur at some point, but not necessarily in the immediate future
Unlikely	I would be mildly surprised if this occurred, but cannot entirely rule out the possibility
Rare	I would be very surprised to see this happen, but cannot entirely rule out the possibility

Descriptor	DESCRIPTION OF SEVERITY				
	HAZARD → IMPACT ↓	Breach of legal requirements	Financial loss	Disruption in service days	Community
Insignificant	Litigation claim ≤£2K	≤£10K	None	Inconvenience to an individual or small group	None
Minor	£2k to £50k	£10k to £100k	1	Impact on an individual or small group	Contained within Trust
Significant	Claim £50k to £250k	£100k to £500k	2-3	Impact on a local community	Local public or press interest
Major	Claim £250k to £1m	£500k to £1m	4-14	Impact on several communities	National public or press interest
Catastrophic	Multiple civil or criminal actions claim of above £1m	≥£1m	≥14	Impact on the whole of Shetland	Officers and/ or Trustees forced to resign

Frequency → Severity ↓	Rare	Unlikely	Possible	Likely	Almost Certain
Insignificant	1	2	3	4	5
Minor	2	4	6	8	10
Significant	3	6	9	12	15
Major	4	8	12	16	20
Catastrophic	5	10	15	20	25

<b>Frequency</b> →	Rare	Unlikely	Possible	Likely	Almost Certain
<b>Severity</b> ↓					
Insignificant	1	2	3	4	5
Minor	2	4	6	8	10
Significant	3 Risk 3	6	9 Risks 2, 5	12 Risk 4	15
Major	4	8 Risk 1	12	16	20
Catastrophic	5	10	15	20	25





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## REPORT

**To:** Shetland Charitable Trust

Date 15 September 2016

**From:** Chief Executive

Report: CT1609039

### Trust Deed

#### 1. Introduction

- 1.1 The purpose of this report is to inform Trustees of the changes required to implement the recommendations of the Governance Review report, approved at their meeting of 12 May 2016 (Min ref CT22/16).
- 1.2 And to seek Trustee approval of additional changes to the Trust Deed and Charitable Objects.

#### 2. Background

- 2.1 At their meeting on 12 May 2016, Trustees approved the Report and Recommendations on a Review of Governance Arrangements of the Trust (CT1605009).

#### 3. Present Position

- 3.1 A report by Turcan Connell, titled 'Implementation of Governance Review' (the report) is attached as Appendix A. This report outlines the implementation of the review of the Trust's governance arrangements.
- 3.2 To allow the recommendations from the Governance Review to be implemented, amendments to the Schedule of Governance Arrangements annexed to the 2012 Deed of Trust must be made. The amended Schedule of Governance Arrangements is attached as Appendix 1 to the report.
- 3.3 The Charitable Objects have not been updated since the establishment of the initial Trust in 1976, therefore they are out of date and require amendment, and this was considered an appropriate time to do so. The amended version of the charitable objects is attached as Appendix 3 to the report.
- 3.4 At present Trustees can only amend the Trust Deed without recourse to OSCR in certain circumstances. A note of amendment to the Trust Deed is attached as Appendix 4 to the report. This amendment would allow Trustees to make any changes to the Trust Deed without recourse to OSCR subject always to changes which require the consent of OSCR in advance.

#### **4. Financial Implications**

4.1 There are no direct financial implications arising from this report.

#### **5. Recommendations**

5.1 The Audit and Governance Advisory Committee recommend that Trustees:

- 5.1.1 a) Note the changes required to implement the recommendations of the Governance Review report;
- b) Approve the amended Schedule of Governance Arrangements as per Appendix 1;
- c) Approve the amended 'Charitable Objects of Trust' as per Appendix 3;

And

- d) Approve the amended powers of the Trust as per Appendix 4.
- 5.1.2 delegate authority to the Chief Executive and the Audit and Governance Advisory Committee:-
- a) to implement the amendments approved in subparagraphs 5.1.1 b), c) and d). This is in addition to the delegated authority granted to the Chief Executive and the Audit and Governance Advisory Committee by the Trustees at their meeting on 12<sup>th</sup> May 2016 to implement the recommendations of the Governance Review Report.
  - b) to authorise such changes as the Office of the Scottish Charity Regulator may require or recommend together with any consequential or minor changes as may be required in connection with the aforementioned implementation and which are agreed by the Audit and Governance Committee on behalf of the Trustees.

Reference: TA1  
Date: 2 September 2016

Report Number CT1609039

# TURCAN CONNELL

S.0608.371

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Shetland Charitable Trust (SCO27025)

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## REPORT TO AUDIT AND GOVERNANCE ADVISORY COMMITTEE

### Implementation of Governance Review

#### 1. Introduction

The purpose of this report is to:-

- 1.1 outline the changes required to implement the decision of the Trustees at their meeting on 12<sup>th</sup> May 2016 relating to the governance of Shetland Charitable Trust (the Trust);
- 1.2 make recommendations regarding amendments to the charitable objects of the Trust as set out in the Trust's existing Deed of Trust dated 6<sup>th</sup> August and subsequent dates and registered in the Books of Council and Session on 27<sup>th</sup> September, 2012 (the 2012 Deed of Trust); and
- 1.3 make recommendations regarding future changes to the 2012 Deed of Trust

#### 2. Background

- 2.1 At their meeting on 12<sup>th</sup> May 2016, the Trustees resolved to:-
  - (a) accept the recommendations as set out in the Report and Recommendations on a Review of Governance Arrangements (Governance Review Report) for the Trust;
  - (b) to delegate authority to the Chief Executive and the Audit and Governance Advisory Committee (AGAC) for:-
    - i. the formal process of engagement with Shetland Islands Council (the Council); and
    - ii. the implementation of the recommendations of the Governance Review Report including exploring opportunities to broaden diversity and representation; and

- (c) approve a further review of the governance of the Trust within three years of implementation of any reorganisation scheme.

### **3. Implementation of the Recommendations of the Governance Review Report**

- 3.1** The Recommendations of the Governance Review Report are broadly implemented by amending the terms of the Schedule of Governance Arrangements annexed to the 2012 Deed of Trust (Schedule of Governance Arrangements) and the Administrative Regulations of the Trust. A revised version of the Schedule of Governance Arrangements is attached to this Report as Appendix 1, and the details of amendments made are outlined in Appendix 2.

Dealing with each of the recommendations in turn:-

- 3.1.1** *That it would be beneficial to the reputation of the Trust to make further adjustments to the governance processes as a result of lessons learned since the 2012 changes.*

This general recommendation is implemented by the changes to the 2012 Deed of Trust and the Administrative Regulations.

- 3.1.2** *Retain the Board at 15 in number allowing for the Chair and Vice-Chair to continue to sit on the Advisory Committees, with the exception of the Chair who should not sit on the Audit and Governance Advisory Committee.*

No change is required to the Schedule of Governance Arrangements to implement the retention of the Board at 15 in number. However, since 12<sup>th</sup> May, 2016 the Trust has been advised that the Council's policy is not to appoint any Trustees to the Trust. That policy may or may not be changed by the next Council following the local authority elections in May 2017. It is therefore recommended that, for flexibility, the wording is amended in paragraph 3 to "up to 15 in number" to provide for the eventuality that no Councillor Trustees are appointed in May 2017.

The Administrative Regulations should be adjusted to state that the Chair should not sit on the Audit and Governance Advisory Committee.

- 3.1.3** *That the number of Councillor Trustees is reduced from 7 to 4.*

This is implemented by the changes to paragraph 3 of the Schedule of Governance Arrangements - "Number and Body of Trustees". Again, the use of "up to" has been incorporated, both for Councillor Trustees and Selected Trustees.

- 3.1.4** *The quorum should be revised to more than one-half of the number of Trustees in office with a provision that not less than one-half of the quorum must be Selected (Appointed) Trustees.*

This recommendation is implemented by the changes to paragraph 6.

**3.1.5** *All Selected Trustees should continue to be selected by a Selection Panel.*

No change required.

**3.1.6** *The Council be asked to appoint 4 Councillors to the SCT Board having regard to the skills set as maybe identified by the Trust and notified to the Council at the time of appointment by the Council.*

This is a matter of policy. It is suggested that the Administrative Regulations cover this point.

**3.1.7** *Continue to elect the Chair from the body of Trustees.*

No change necessary.

**3.1.8** *The Trust contracts a competent and experienced person to chair the Selection Panel. This person is to have good knowledge and experience in the use of assessable competencies.*

This recommendation has been implemented by the amendments to paragraph 7 of the Schedule of Governance Arrangements.

**3.1.9** *That SCT makes every effort to create a more gender and age diverse Board.*

It is suggested that implementation is achieved through an amendment to the Administrative Regulations or some other policy document.

**3.1.10** *That SCT adjusts the Trust Deed to enable recruitment of Trustees from off island. This will only be used in exceptional circumstances to ensure that the Board remains fit for purpose.*

This is implemented by the amendments to paragraph 2 of the Schedule of Governance Arrangements - "Trustees". It will be for the Trustees to justify that the exceptional circumstances have arisen which allow them to resolve to appoint as a Selected Trustee, an individual not principally resident in the Shetland Islands.

**3.1.11** *There should not be an honorarium payment to any post on the Board at this time.*

No change is required.

**3.1.12** *All Trustees are provided with professional development opportunities in their roles, given opportunities to create close working relationships, are subject to an annual review of performance and take part in an annual review of Board performance.*

This is best placed in the Code of Conduct for Trustees in the Administrative Regulations.

**3.1.13** In addition further minor and consequential changes are made namely that:-

- (1) Throughout the Schedule of Governance Arrangements, "Selected Trustee" is replaced by "Appointed Trustee" since that more reflects the term used.
- (2) The Effective Date of the proposed changes is currently shown as 4<sup>th</sup> June 2017. That is the date that the existing Councillor Trustees demit office in terms of the 2012 Deed of Trust.
- (3) Certain provisions in Schedule of Governance Arrangements have been deleted as no longer relevant – for example in paragraph 4 the transitional provisions.
- (4) Paragraph 9 sets out Transitional Provisions. These provide that the Continuing Trustees being those in office on 4<sup>th</sup> June 2017 will be the Trustees. Selected Trustees will be deemed to have been appointed on the date they were first appointed and will carry that term over to the new provisions.

**3.2** The Trustees approved for the review of the Governance of SCT within three years of implementation of the Reorganisation Scheme. There is no need to amend the 2012 Deed of Trust or the Administrative Regulations.

#### **4. Amendments to Charitable Objects**

**4.1** It is recommended that the Audit and Governance Advisory Committee consider updating the charitable objects for the following reasons:-

- 4.1.1** There is a significant mismatch between the charitable objects set out in Clause (Second) of the 2012 Deed of Trust and the Trust's activities outlined in the Trustees' Report in its annual accounts.



4.1.2 The language used in the 2012 Deed of Trust pre-dates the Charities and Trustee Investment (Scotland) Act 2005 (the 2005 Act).

4.1.3 To date, there has been no significant review of the charitable objects since the establishment of the Shetland Islands Council Charitable Trust established in 1976 which was the initial trust vehicle.

4.1.4 Paragraphs (a) to (k) of Clause (Second) of the 2012 Deed of Trust are a mix of charitable objectives and activities by which those charitable objectives are fulfilled – for example (a) is the promotion of the welfare of the community; the charitable purpose is the advancement of community development; that is fulfilled by carrying out developments on or in connection with Shetland. The proposed changes will bring the clarity required by OSCR which will allow for easier explanations, if necessary, when relating to the charitable objects to the 2005 Act and any guidance produced by OSCR.

4.1.5 OSCR has itself made various comments outlining the challenges faced.

4.2 Attached as Appendix 3 are the proposed amended charitable objects, based on OSCR's updated Guidance on Meeting the Charity Test. The proposed amended charitable objects have been sent to OSCR for its initial comments.

It is worth pointing out that any change to the charitable objects requires the consent of OSCR in advance. That can however be obtained concurrently with any application for a reorganisation of the Trust.

## 5. Future Changes to the Deed of Trust

It is recommended that the 2012 Deed of Trust is amended to provide that the Trustees are permitted to make changes to its provisions without recourse to OSCR in terms of the 2005 Act. A note of this amendment is attached as appendix 4.

There is considerable time and expense involved in amending the Deed of Trust by a Reorganisation Scheme. At present, the 2012 Deed of Trust provides that the Trustees can amend the Deed of Trust without recourse to OSCR where, "in the opinion of the Trustees [such change is] requisite for the purpose of conferring on the Trustees such further or other powers as may be necessary for the better administration and more effectual execution" of the Trust.

It is now commonplace for charitable Deeds of Trust to include the power to amend existing provisions and not simply for the purposes provided for in the 2012 Deed of Trust, inherited from the original Deed of Trust in 1976.

Indeed charities established as companies limited by guarantee can do so under the Companies Act legislation by a Special Resolution requiring a majority of 75% of those attending and voting at a General Meeting and Scottish Charitable Incorporated

Organisations established under the 2005 Act require a two-thirds majority of members to amend their Constitutions.

It is recommended any amendment to change the Trust's Deed of Trust in future requires a majority of 75% of Trustees attending and voting following the Companies Act provisions. This will be in line with the majority required in the event that a Trustee fails to attend at least one-half of Trustee Meetings in a financial year.

It should be noted however that:-

- (1) the consent of OSCR will still be required in advance to any changes to the charitable objects and also to any application to wind-up the charity;
- (2) any changes to the Trust Deed can only be made applying the Trustees' duties; and
- (3) OSCR has to be advised of any changes within three months of the date of change.

## **6. Conclusion**

Trustees are asked to consider and note the terms of this Report and make such recommendations to the Trustees as may be necessary.

**Turcan Connell**  
**1<sup>st</sup> September 2016**



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## Appendix 1

This is the SCHEDULE OF GOVERNANCE ARRANGEMENTS referred to in the 2012 DEED of TRUST dated

### 1 Definitions:-

In this Schedule of Governance Arrangements:-

“Selected Trustee” means a trustee appointed or re-appointed by the Trustees under Paragraph 4 unless the context requires otherwise;

“Appropriate Officer” means the Chief Executive of Shetland Islands Council, or other officer designated by Shetland Islands Council for the purposes of this Schedule;

“Continuing Trustees” means the Trustees in office as at the Effective Date;

“Councillor” means an elected member of Shetland Islands Council;

“Councillor Trustee” means a Councillor appointed or re-appointed under Paragraph 5 unless the context requires otherwise;

“Effective Date” means such date as shall be determined by the Trustees and shall be not later than 4<sup>th</sup> June, 2017 and in the event of no determination by the Trustees, 4<sup>th</sup> June 2017;

“Local Government Election” means an ordinary election of councillors to Shetland Islands Council;

“Schedule” means this Schedule of Governance Arrangements;

“Selection Panel” means such persons appointed by the Trustees under Paragraph 7;

“Shetland Islands Council” means Shetland Islands Council constituted in terms of the Local Government etc (Scotland) Act 1994 and its statutory successors from time to time as such local or other governmental authority representative of the Shetland Islands or the inhabitants of the area;

“Term” means for Selected Trustees the term of office from the date of appointment until retirement as specified in Paragraph 4(c) and for Councillor Trustees the term of office from the date of appointment until retirement as specified in Paragraph 5(b);

“Trustees” includes Continuing Trustees, Selected Trustees and Councillor Trustees;

### 2 Trustees

Subject as aftermentioned, Trustees shall be principally resident in the Shetland Islands and in the event that any Trustee ceases to be so resident such Trustee shall be deemed to have demitted office as a Trustee on the date he ceases to be so resident. In exceptional circumstances, Trustees may resolve (a) that a Trustee who ceases to be principally resident in the Shetland Islands may continue in office as a Trustee notwithstanding that he or she has ceased to be so resident; or (b) appoint as a Trustee an individual not principally resident in the Shetland Islands.

### **3 Number and Body of Trustees**

- (a) The Trustees shall be up to fifteen in number and any vacancy shall be promptly filled.
- (b) The body of Trustees shall comprise:-
  - (i) up to four Councillor Trustees; and
  - (ii) up to eleven Selected Trustees.
- (c) No Trustee may serve for more than two consecutive Terms and once a Trustee has demitted office there must then be a break of at least two years before any subsequent Term. Any Trustee re-appointed following a break of two years will be deemed not to have served any prior term for the purposes of this Schedule.

### **4 Selected Trustees**

- (a) The Trustees shall, on the recommendation of the Selection Panel, appoint Selected Trustees.
- (b) Subject to sub-paragraph 9(b) below, Selected Trustees shall serve a Term and shall be eligible for re-appointment for one further Term thereafter.
- (c) Selected Trustees appointed as and from 31st May, 2019 shall retire on the 31st May occurring every fourth year after 31st May, 2019.
- (d) In the event (i) that all vacancies have not been filled, or (ii) of any vacancy occurring by the death, resignation or otherwise of any Selected Trustee before the completion of his Term, on the recommendation of the Selection Panel, the Trustees may appoint any person to fill the vacancy and such Selected Trustee shall retire when the Term of the vacancy being filled would in ordinary course have expired and shall be deemed to have served one Term on such retiral.
- (e) No Councillor may be a Selected Trustee and in the event that any Selected Trustee, during his Term is elected as a Councillor, he will demit office as a Selected Trustee.

### **5 Councillor Trustees**

- (a) Shetland Islands Council may by notice in writing, signed on its behalf by an Appropriate Officer and given to the Trust appoint a Councillor Trustee or Councillor Trustees.
- (b) Councillor Trustees shall retire one calendar month after the date of the Local Government Election next following the date on which they took up office as a Councillor Trustee.
- (c) In the event that a Councillor Trustee, other than a Councillor Trustee retiring as a Councillor on the day on which the poll is held at the Local Government Election next following the day on which he was elected, ceases to be a Councillor whether by death, resignation as a Councillor or otherwise he shall be deemed to have demitted office as a Trustee on such date as he demits office as Councillor.
- (d) In the event (i) that all vacancies have not been filled following either the Effective Date or a Local Government Election, or (ii) of any vacancy occurring in the number of Councillor Trustees whether by death, resignation as a Trustee, demitting office in terms of sub-paragraph (c) above or otherwise of such Councillor Trustee before the completion of his Term, Shetland Islands Council may appoint a Councillor to fill such vacancy and such Councillor Trustee shall retire one calendar month after the date of the Local Government Election next following the date on which he took up office as a Councillor Trustee and shall be deemed to have served one Term on such retirement.

## **6 Quorum, Chair and Trustees' Meetings**

- (a) No business shall be transacted at a meeting of the Trustees unless a quorum is present and any and all such business shall be decided by a majority of the Trustees present and voting thereon. In the event of an equality of votes, the Chair of the Trust, or in his absence the Vice-Chair, or in the absence of both, the person presiding at the meeting shall have the second or casting vote.
- (b) The quorum for a meeting of the Trustees shall be:-
  - (i) if there is an even number of Trustees, one half of the number of Trustees plus one: or
  - (ii) if there is an odd number of Trustees, one half of the number of Trustees rounded up to the nearest whole numberof whom not less than one half must be Selected Trustees.
- (c) There shall be a Chair and Vice Chair of the Trust. The Chair and Vice Chair shall be elected by the Trustees for the remainder of their current Term and shall be eligible for re-election for a further Term thereafter.
- (d) Trustees shall be required to attend in person at least one-half of Trustee meetings in each financial year of the Trust and if they do not such failure to attend may be treated as grounds on which the remaining Trustees may remove



such Trustee by a resolution passed by a 75% majority of those attending and voting thereon.

## **7 Selection Panel**

- (a) The Trustees shall establish a Selection Panel to guide the Trustees in relation to the selection of appropriate individuals for appointment as Selected Trustees.
- (b) The Selection Panel shall comprise:-
  - (i) an independent Chair with good knowledge and experience in the use of assessable competencies appointed by the Trustees but who shall not be a Trustee of the Trust; and
  - (ii) two Trustees at least one of whom must be a Selected Trustee.
- (c) In the event that the Selection Panel is unable to recommend appropriate individuals resident in the Shetland Islands for appointment as Selected Trustees then that shall be deemed to be exceptional circumstances for the purpose of Paragraph 2

## **8 Annual General Meetings**

- (a) An Annual General Meeting shall be held in public once in every financial year at such time (within a period of not more than 15 months after the holding of the last Annual General Meeting) and place as may be determined by the Trustees.
- (b) The Chair, or in his absence for any reason the Vice-Chair, or in the absence of both for any reason a Trustee present and chosen by the other Trustees present shall preside as Chair of the Annual General Meeting.
- (c) At least 21 clear days' notice must be given of the Annual General Meeting, such notice being published on the Trust's website and in a local newspaper specifying the time and place of the meeting.
- (d) The purpose of the Annual General Meeting will be to present the Annual Report of the Trustees and such other business as the Trustees may decide.

## **9 Transition etc**

As at the Effective Date the Continuing Trustees:-

- (a) shall be the Trustees;
- (b) be deemed to have been appointed on such date prior to the Effective Date as such Continuing Trustee was first appointed as a Trustee; and
- (c) shall be deemed to have served such Term or Terms as provided for in the 2012 Deed of Trust..

**SHETLAND CHARITABLE TRUST  
(SC027025)**

**Note of Amendments to Schedule of Governance Arrangements**

There follows a list of the main amendments made to the existing Schedule of Governance Arrangements ("Schedule") annexed to the 2012 Deed of Trust as referred to in the accompanying Report. Retaining the numbering in the Schedule:-

**1 Definitions**

In the definitions:-

- 1.1** "Appointed" is deleted and substituted with "Selected" and after wherever it occurs throughout the Schedule
- 1.2** "... and shall include the First Appointed Trustees" is deleted as no longer necessary
- 1.3** "Continuing Trustees" means the Trustees in office as at the Effective Date – transitional provisions

Throughout the remainder of the definitions clause there have been various deletions which relate to the changes in 2012. These are no longer necessary and their removal simplifies matters. [Paragraph 3.1.13 of Report]

**2 Trustees**

The words "In exceptional circumstances, Trustees may resolve (a) that a Trustee who ceases to be principally resident in the Shetland Islands may continue in office as a Trustee notwithstanding that he or she has ceased to be so resident; or (b) appoint as a Trustee an individual not principally resident in the Shetland Islands" have been inserted. [Paragraph 3.1.10 of Report]

**3 Number and Body of Trustees**

- 3.1** Reference is now made to "up to" 15 Trustees comprising "up to 4" Councillor Trustees and "up to 11 selected" Trustees. [Paragraphs 3.1.2 and 3.1.3 of Report]

Former paragraph (c), "Notwithstanding any vacancy in the number of Trustees at all times it shall be deemed to be a full complement of Trustees" is delete and the remainder of the paragraph re-lettered. [Paragraphs 3.1.2 and 3.1.3 of Report]

**4 Selected Trustees**

Sub paragraph (c) has been simplified to simply refer to the next date for the appointment of Selected Trustees being 31<sup>st</sup> May 2019. Provisions relating to the previous transitional changes have been deleted. [Paragraph 3.1.13 of Report]

## **6 Quorum, Chair and Trustees' Meetings**

Paragraph b has been amended to read:-

“(b) The quorum for a meeting of the Trustees shall be:-

- (i) if there is an even number of Trustees, one-half of the number of Trustees plus one; or
- (ii) if there is an odd number of Trustees, one-half of the number of Trustees rounded up to the nearest whole number

of whom not less than one-half must be Selected Trustees.” [Paragraphs 3.1.3 and 3.1.4 of Report]

## **7 Selection Panel**

In sub-paragraph (b)(i) the words “with good knowledge and experience in the use of assessable competencies” have been inserted. [Paragraph 3.1.8 of Report]

## **9 Transition**

The previous transitional provisions have been removed and replaced by provisions required in relation to the forthcoming changes. [Paragraph 3.1.13 of Report]

**Charitable Objects of Trust Revised**

(SECOND) The Trustees shall hold the Trust Fund at their sole discretion for any charitable purposes which in the opinion of the Trustees are solely in the interests of the area administered by the local or other governmental authority for the time being of the Shetland Islands or of the inhabitants of the said area (hereinafter referred to as “the community”) towards all or any of the following charitable purposes:-

- (a) the prevention or relief of poverty;
- (b) the advancement of education
- (c) the advancement of religion
- (d) the advancement of health
- (e) the advancement of citizenship or community development
- (f) the advancement of the arts, heritage, culture or science
- (g) the provision of recreational facilities, or the organisation of recreational activities, or the organisation of recreational facilities, with the object of improving the conditions of life for the persons for whom the facilities or activities are primarily intended
- (h) the promotion of equality and diversity
- (i) the advancement of environmental protection or improvement
- (j) the relief of those in need by reason of age, ill-health, disability, financial hardship or other disadvantage

Declaring that the Trustees shall have the following powers exercisable only in furtherance of its said charitable objects, namely:-

- (i) making grants or loans with or without interest;
- (ii) carrying out developments on or in connection with the said area ;
- (iii) encouraging and assisting the holding of meetings of members of the community;

- (iv) preserving and improving the said area in the manner which in the opinion of the Trustees is most conducive to promoting the said area for the benefit of the community and of the Nation;
- (v) repairing, maintaining and renewing any buildings, equipment and other assets held or used in the furtherance of any of the foregoing charitable purposes;
- (vi) doing all such other things as are incidental to the furtherance of the foregoing charitable purposes:

Declaring further that no act of the Trustees shall be deemed to be ultra vires by reason only that individuals or bodies who do not form part of the community may or will benefit indirectly by such act.

**Note of Amendments to Deed of Trust**

There follows the amendments to the 2012 Deed of Trust as referred to in the accompanying Report.

Clause (Fourth) will be amended to read:-

**"Supplementary Deed**

(FOURTH) The Trustees may from time to time resolve by a 75% majority of the Trustees present and voting thereon to supplement or alter or amend the provisions of the 2012 Deed of Trust by Deed or Deeds revocable or irrevocable supplement or alter or amend the provisions of the 2012 Deed of Trust PROVIDED always that nothing in this Clause shall authorise or be deemed to authorise the application of any part of the Trust Fund or the income thereof for any purpose which is not a purpose charitable in law."

The changes to implement the amendment are the deletion of:-

- 1 "to the extent (and to such extent only) as may in the opinion of the Trustees be requisite for the purpose of conferring on the Trustees such further or other powers as may be necessary for the better administration and more effectual execution of the charitable trust hereby created"; and
- 2 "any departure from or modification of the objects declared in Clause (SECOND) hereof or"





## REPORT

To: Shetland Charitable Trust

Date: 15 September 2016

From: Chief Executive

Report: CT1609040

### **Shetland Recreational Trust Retention of Surplus Funds 2015/16**

#### **1. Introduction**

- 1.1 The purpose of this report is to seek Trustee approval of the retention of funds totalling £278,341 by Shetland Recreational Trust (SRT).

#### **2. Background**

- 2.1 SRT receives grant funding through the Trusts Revenue Grant Scheme.
- 2.2 At their meeting on 10 December 2015, Trustees approved a new grant condition to take effect from 2016/17. This condition replaced the reserves policy and permits organisations to retain a balance of up to 3 months of the Trust grant in their restricted reserves (CT1512075).
- 2.3 The funds which SRT are requesting to retain relate to the 2015/16 year, this is prior to the new grant condition taking effect and therefore, the reserves policy must be applied.
- 2.4 As part of the scheme, organisations had sign up to grant conditions which included a reserves policy. This policy set out the amount of reserves an organisation could retain before funds had be repaid to the Trust.
- 2.5 As SRT received a grant in excess of £500,000 they could retain, under the reserves policy, funds of up to £50,000. This is only 1.5% of the budgeted expenditure to 31 March 2016.

#### **3. Present Position**

- 3.1 SRT currently holds unrestricted reserves totalling £635,067. This is in excess of the £50,000 allowed by the reserves policy.
- 3.2 It has been identified that, after removing designated reserves that are out with the reserves policy and the £50,000 allowed by the reserves policy, £278,341 would be repayable to the Trust. This represents 8.1% of the budgeted expenditure of SRT for the year to 31 March 2016.

- 3.3 The remaining unrestricted reserves of £356,726 relate to funding from other organisations and previously authorised facility enhancement reserves which cannot be repaid to the Trust.
- 3.4 This reserve has built up due to the trading activities of SRT, eg bar takings from large events as well as from an under spend generated on operations. The bulk of the under spend has arisen from SRT preparing early for the grant reductions which the Trust announced in 2015. SRT have formally requested the retention of these funds.
- 3.5 The funds are currently held in the Designated Reserve Fund and the Facility Enhancement Reserve which was set up to assist in the development and operation of facilities and for any other purpose as determined by the Trustees of SRT.
- 3.6 SRT believe that retention of these funds will allow them to maintain the opening hours of each Centre where possible. They will also put the balance toward activities and plans in future years to help the overall sustainable position of the Trust.
- 3.7 SRT aims to have a balanced budget by 2020, the retention of the funds requested will assist them to meet its duty to maintain its assets and to cover predicted deficit over the short term.

#### **4. Financial Implications**

- 4.1 If the surplus is refunded the Trust will have additional funds of £278,341.
- 4.2 If the surplus is retained by SRT, the Trust will have £278,341 less funds available for investment.

#### **5. Conclusion**

- 5.1 SRT currently hold unrestricted funds of £278,341 which under the terms of the grant should be repayable to the Trust.
- 5.2 In this interim year, before the Trust's new grant condition takes effect, SRT has requested to retain these funds to allow them to maintain Centre opening times and put it towards activities and plans for the future to maintain their overall sustainability.

#### **6. Recommendations**

- 6.1 It is recommended that Trustees approve the request from SRT to retain funds of £278,341, which is above the permitted level in the reserves policy, for the purposes outlined in paragraphs 3.5 and 3.6.

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**REPORT**

To: Shetland Charitable Trust

Date: 15 September 2016

From: Chief Executive

Report number: CT1609046

**Service Performance of Funded Organisations – Year Ending 31 March 2016****1. Introduction**

1.1 The Purpose of this Report is to:

- a) present Trustees with information regarding the service performance of various organisations to which the Trust provides funding, in a revised format; and
- b) seek Trustee approval of the revised service performance reporting format.

**2. Background**

2.1 Trustees may recall that as part of the budgeting process, Service Co-ordinators are required, on behalf of the Trust, to determine:

- the strategic service framework within which any bid for funding from the SCT should be considered;
- an appropriate level and standard of service to be provided and express that in a Service Statement or Service Level Agreement (as appropriate);
- the appropriate cost at which to buy that service with due regard to comparable information and funding from other sources; and
- an appropriate monitoring and evaluation framework to ensure that services are being delivered to the required standard.

2.2 The Grant Offer Letter, which organisations sign up to prior to any money being released, states that, "*the Grantee provides service performance reports as required for the proper monitoring of the grant, the reports to be of a format and frequency to be agreed by the Service Co-ordinator*".

Depending on the size of the organisation, and other factors, the information can be requested quarterly, six monthly or on an annual basis.

- 2.3 Following the presentation of the Service Performance of Funded Organisations report (CT1509044) in 2015, Trustees asked for the format of the report to be revised and presented in a more consistent and concise format for each organisation.
- 2.4 This report is presented in a revised summary format for the three large Trusts and for one of the smaller organisations.

### **3. Present Position**

- 3.1 Comprehensive information is provided by each organisation which is then scrutinised by the Trust and Service Coordinators.
- 3.2 Appendix A is a summary of the detailed service performance reports provided by Shetland Amenity Trust, Shetland Arts Development Agency Shetland Recreational Trust, and Shetland Islands Citizens Advice Bureau.
- 3.3 The summary reports in Appendix A are presented in a consistent format and captures the key service and financial performance information for the four organisations.
- 3.4 Subject to Trustee approval of the new reporting format, a summary service performance report for each funded organisation will be presented to Trustees at the next Trust meeting, in the revised format.

### **4. Financial Implications**

- 4.1 There are no financial implications arising from this Report.

### **5. Conclusions**

- 5.1 In terms of performance, there are no major issues of concern with regard to service delivery to report to Trustees. The Trust continues to work closely with organisations throughout the year to help ensure maximum benefits to Shetland and its inhabitants.
- 5.2 The revised format of these reports was requested by the Trustees and aims to provide key performance information in a consistent and concise format.

### **6. Recommendations**

- 6.1 It is recommend that Trustees:
  - a) Note the content of Appendix A;
  - b) Highlight issues or areas where Trustees might wish to receive further information or clarification; and
  - c) Approve the revised service performance reporting format.

Reference: DA1  
Date:

Report No: CT1609046



## Shetland Amenity Trust

### PURPOSE:

To provide core funding to support the organisational and staffing costs, to support the diverse range of services and enable the Trust to lever in additional funding.

Shetland Amenity Trust will continue to deliver an effective, holistic service which embraces all aspects of Shetland's cultural and natural heritage. The service supports, encourages and facilitates the sound management and sustainable development of Shetland's natural and cultural resources and facilitate access, both intellectual and physical, thereto for all.

### KEY TARGETS:

Funding provided by Shetland Charitable Trust (SCT) support the following areas of Shetland Amenity Trust's (SAT) activities:

- Finance, Administration and Management
- Interpretation
- Natural Heritage
- Archaeology
- Place Names
- Environmental Improvement .
- Woodlands

Targets for 2015/16 were largely narrative and have been revised for 2016/17 onwards to provide a better qualitative and quantitative assessment of performance. Some of the key achievements and areas for development for 2015/16 are detailed below.

#### Achievements

- Four year Follow the Vikings transnational European project in progress.
- Geopark Shetland now recognised as UNESCO Global Geopark.
- Shetland geology phone app developed and launched.
- Network of 19 heritage organisations supported through annual running cost grants.
- Organised and delivered Shetland Nature Festival.
- As part of application for UNSECO World Heritage Status for Mousa, Old Scatness and Jarlshof, PHD project started to scan/digitise sites.
- Researched and designed suite of five interpretive panels for Lerwick Community Council in Harrison Square.
- Major Peatland restoration project completed on East Kame.
- Six tonnes of aluminium and 441 tonnes of glass recycled.
- Over 4,500 volunteers collected 49 tonnes of rubbish as part of Da Voar Redd Up.

#### Areas for Development

- Shetland Interpretive Plan update to be completed
- Shetland Monuments Records yet to be available online – Graduate placement funding secured to progress.

### PERFORMANCE SUMMARY

SAT continues to deliver a wide range of services in the heritage sector. Many of its activities are not directly supported by SCT funding, but do receive support indirectly through funding for SAT's Finance, Administration and Management functions. Their new targets set for 2016/17 will provide a better understanding of the outcomes and outputs achieved by the organisation.

SAT reported progress against all their 2015-16 grant award targets, other than those highlighted above. SAT received total funding on 2015/16 of £1,312,216. SAT had a material overspend in the year, which they have indicated will be recovered as part of the restructuring exercise they are undertaking as their core funding reduces.

# Shetland Arts Development Agency

## PURPOSE:

To encourage, support, inspire, promote, develop and deliver activities in the fields of: dance; drama; theatre; film; literature; music; crafts; and visual arts with a view to the advancement of arts and culture and improving the quality of life for the inhabitants of the Shetland Isles.

- Exhibitions by local, national and international artists and makers at Bonhoga
- Promote and support Visual Arts
- Promote and support Crafts development
- Provide Drama development opportunities
- Develop Dance activities
- Promote and support Literature development
- Promote and support Music development
- Encouraging Film and Digital Media development
- Encourage performances at Mareel and the Garrison Theatre

## KEY TARGETS

Target Areas	Target	Actual
Concerts / Screenings / Exhibition days	3,000	4,122
Audience attendances	160,000	161,017
Development sessions	1,300	1,669
Participations	9,000	21,584

### Priority Area 1 : Youth Arts - 16 Concerts / Screenings / Exhibition days

- 1,493 Audience attendances
- 138 Development Sessions
- 2,701 Participants

### Priority Area 2 : Education & Learning - 7 Concerts / Screenings / Exhibition days

- 235 Audience attendances
- 832 Development Sessions
- 7,551 Participants

### Priority Area 3 : Arts & Wellbeing - 96 Concerts / Screenings / Exhibition days

- 1,094 Audience attendances
- 274 Development Sessions
- 893 Participants

### Priority Area 4 : Development & Support - 73 Development Sessions

- 2,636 Participants

### Priority Area 5 : Programme, Commissioning & Curation - 4,003 Concerts / Screenings / Exhibition days

- 158,195 Audience attendances
- 352 Development Sessions
- 7,803 Participants

### Priority Area 6 : Recording, Broadcasting & Intellectual Property - 173 Development Sessions

- 759 Participants

## PERFORMANCE SUMMARY

Overall audience attendances figures totalled 161,017. Events and attendances were generally above target on the priority areas identified by Shetland Arts Development Agency (SADA).

SADA achieved all their key performance targets. Any potential over delivery is currently being reviewed by SADA and will decrease as core funding is reduced. SADA received total funding in 2015/16 of £725,330 and operated within budget.



## Shetland Recreational Trust

### PURPOSE:

To provide a wide range of leisure and sport activities and facilities at 8 locations throughout Shetland.

The facilities are professionally operated, well maintained to a high standard with appropriate opening hours.

The facilities are seen as places for whole communities to meet, socialise and play.

They are a major attraction for local residents and an important factor in attracting tourists.

### KEY TARGETS:

#### 1. Opening hours achieved:

	12 Months Target	12 Months Actual	Difference
Clickimin Leisure Complex	4,900	4937	+37
Scalloway Pool	2,625	3105	+480
Rural Leisure Centres	19,725	19,997	+272
Totals	27,250	28,039	+789

#### 2. Admissions achieved:

	12 Months Target	12 Months Actual	Difference
Clickimin Leisure Complex	380,000	343,893	-36,107
Scalloway Pool	33,000	47,027	+14,027
Rural Leisure Centres	236,500	254,808	+18,308
Totals	649,500	645,728	-3,772

#### 3. Other Service Targets

Service Area	Target 2015/16	Actual 2015/16	Difference No.	Difference %
General Subscriptions	400	433	+33	+8.3
Corporate Subscriptions	470	457	-13	-2.8
Swimming Classes & Courses	26,000	33,401	+7,401	+28.5
Sport and Exercise Classes	25,000	44,341	+19,341	+ 77.4
Senior Leisure Club Attendances	3,200	3,955	+755	+23.6
Health Promoting Class Attendances	1,470	1,750	+280	+ 19.0
Partnership Events	6	14	+8	+133.3
Case Studies	8	11	+3	+37.5

### PERFORMANCE SUMMARY

The total opening hours of 28,039 is 789 (2.9%) above target and mainly as a result of additional opening hours at Scalloway Pool to accommodate customers during the closure of the Clickimin Pool. The total admissions of 645,728 is 3772 (0.6%) below target and again this has been mainly caused by the close of the Clickimin Pool.

The courses and classes programmes has been particularly successful with all areas up on target.

Shetland Recreational Trust (SRT) achieved all their key performance targets with only the closure of the Clickimin Pool impacting on their total admissions. SRT received total funding in 2015/16 of £3,416,000 and operated within budget.

## Shetland Islands Citizens Advice Bureau

### PURPOSE:

Providing an independent advice and information service to:

1. Ensure that individuals do not suffer through lack of knowledge of their rights and responsibilities, or of the services available to them, or through an inability to express their need effectively and
2. To exercise a responsible influence on the development of social policies and services, both locally and nationally.

### KEY TARGETS:

Outcome	Target	Actual	Comment
New Cases Opened	2000	1747	Total does not reflect all clients as. In 2015/16, supported additional 120 clients. Marketing plan developed to increase client numbers and to target specific groups.
Total Number of Issues Raised	14500	8796	CAS changes to methods of recording statistics have resulted in decrease of issues recorded. In recognition of this, agreed target for 16/17 has been reduced.
Welfare Benefit Checks for Income Maximisation	200	391	Target exceeded
Confirmed Welfare Rights financial gains	£250,000	£418,297	Target exceeded
Number of cases referred to / started by specialist debt adviser	80	54	Lower than target due to reduced staffing in 15/16. Now have 2 x 0.5FTE Debt Advisers in place.
Confirmed financial gains from specialist debt adviser	£100,000	New Debt Managed £385,044 Debt Written Off £23,542	National statistics reported show 14 year low in level of personal insolvencies in Scotland. Thought to be due to new Bankruptcy Act which has tightened up process and increased costs.
Number of specialist Direct Payment cases started	20	16	Lower than target due to service ceasing early.
Number of specialist Direct Payment packages set up	15	15	On target
Number of cases referred to / started by specialist housing adviser	10	7	Only complex cases are referred to specialist adviser.
Confirmed financial gains from generalist advice	£15,000	£24,362	Target exceeded

### PERFORMANCE SUMMARY

Shetland Islands Citizens Advice Bureau (SICAB) has achieved many of their key targets for 2015/16. Those below target have been impacted by staff shortages and the methodology used for recording statistics. Full staffing is now in place and targets have been adjusted for 2016/17 to reflect the new recording methods.

SICAB received total funding in 2015/16 of £132,265 and operated within budget.

## REPORT

To: Shetland Charitable Trust

Date: 15 September 2016

From: Chief Executive

Report: CT1609041

### Investment Review Report - Quarter to 30 June 2016

#### 1. Introduction

- 1.1 The Trust's external investments are managed on its behalf by fund managers. The purpose of this report is to review investment performance for the quarter to 30 June 2016.

#### 2. Detail

- 2.1 This report concentrates on the three-month period from April to June 2016. The report looks at the performance of the Trust's three fund managers, the overall investment performance relative to the markets, the physical movement of funds, any changes from the investment strategy, and any other relevant issues relating to the investments over the period.
- 2.2 The Trust has three fund managers with total investments under management at the end of June 2016 of £209 million. The funds, type of mandate and market values at the end of June 2016 are as follows:

Manager	Mandate	% of Reserves	Market Value £m
BlackRock	Passive Equity	53%	110
Insight	Bonds	30%	64
Schroders	Property	17%	35

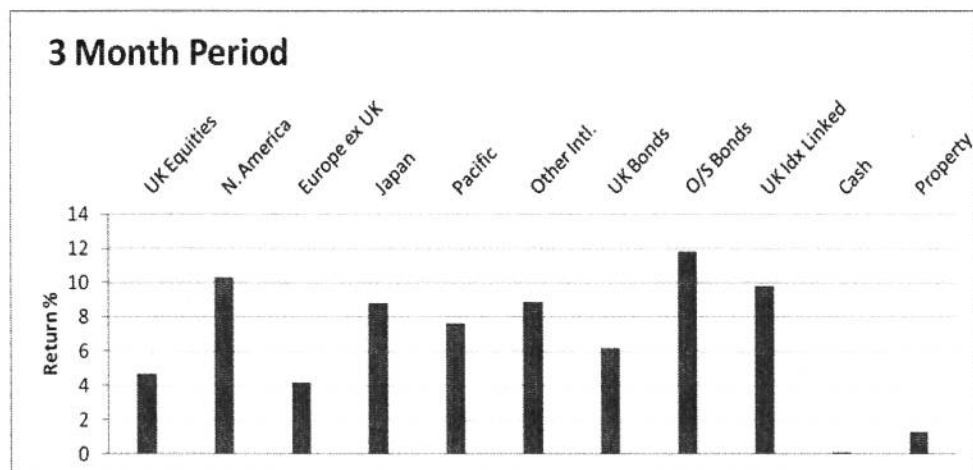
2.3 Individual fund manager performance is detailed later but there is the need to consider the effect of the markets themselves and of any cash withdrawals or injections into the funds. The following table shows the effect on the overall investments of these factors during the three month period.

	Investments
	£m
Market Value as at 31/03/2016	200
Additions / (Withdrawals)	(1)
Investment Return	<u>10</u>
<b>Market Value as at 30/06/2016</b>	<b><u>209</u></b>

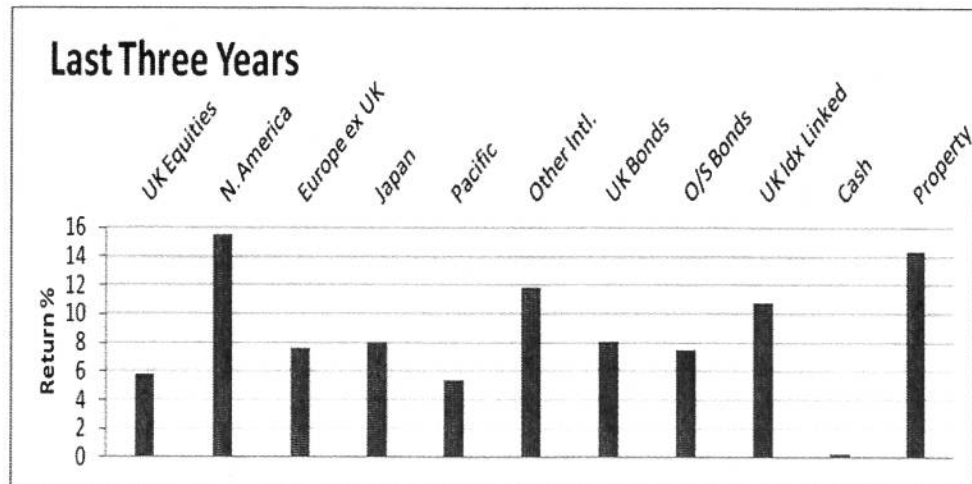
2.4 The figures show an overall £9 million increase in value over the three month period. This increase in value is due to investment returns, as the equity and bond markets both produced investment returns around 5%, despite the uncertainty caused from the European Referendum.

2.5 There was a withdrawal of £0.5 million from the investments during the three month period to June 2016. This withdrawal was from BlackRock and is their quarterly dividend distribution from the UK equity investment, which is automatically paid into the Charitable Trust's bank account.

2.6 The equity markets were on a general upward trend over the three month period, especially the UK market in the lead up to the European Referendum. After the result of the vote was known the UK market slumped but still posted positive returns over the period, while currency markets saw an increase in volatility with sterling falling against the US dollar. The Bank of England stated that it was considering cutting interest rates and increasing liquidity through quantitative easing to support markets, both of which has happened recently. The investment markets performance by asset class over the three month period looks like this:



- 2.7 This is only a three month snapshot of how the various investment classes and sectors have performed and returns can be volatile over this period, but in this instance all asset classes and sectors have produced positive returns. History shows that investments in these asset classes over the long term are very positive, which is the reason the investment strategy is based on a long term investment horizon. As an example of the differences in market returns over a slightly longer time period the following graph shows the same asset classes returns per annum over the last three years.



- 2.8 The fund manager has negligible influence over the market return but they may be required by the mandate agreement to invest into these markets. The main constituent of a fund's performance is the market return, where the fund is invested. A fund manager with an active mandate is asked to outperform a benchmark made up of market indexes, or cash plus a percentage return, whereas a fund manager with a passive mandate is aiming to match the market return.
- 2.9 In this environment the Trust's fund managers have, over the three month period to the end of June 2016, performed as follows:

Manager	Mandate and Benchmark	Fund Return	Benchmark Return	% Return Compared to Benchmark
BlackRock	Equity (Passive)	5.1	5.1	0.0
Insight	Bonds	5.0	4.7	0.3
Schroders	Property	1.0	0.1	0.9

- 2.10 The fund with BlackRock is invested passively in equities, so the fund is aiming to equal the benchmark return. BlackRock achieved this aim over the three month period in a rising market place

producing a return of 5.1%, which is a reflection of the mixture of returns from the various equity markets the fund invests into.

- 2.11 Insight has a bond fund mandate which invests into UK Gilts, UK Corporate bonds and overseas bonds. All three sectors produced positive investment returns between 3% and 6% over the quarter to June 2016, with UK Gilts the best performing sector at 6.18% as Government bonds rallied sharply after the European Referendum result. Overall Insight produced a 5.0% return which was 0.3% above the benchmark return.
- 2.12 Schroders property mandate produced a return of 1.0% over the three month period, which was above an almost flat property benchmark by 0.9%. The UK property return over the period was close to zero as the decision to leave the European Union created uncertainty about the impact on property values and this wiped out any gains made earlier in the three month period.
- 2.13 The overall investment return for the Trust's investments for the three month period to the end of June 2016 was 4.3%, which was equal to the benchmark return.
- 2.14 This is a good start to the 2016/17 financial year with a 4.3% investment return in the first quarter, and all three fund managers producing positive returns. The European Referendum dominated the news in the UK over the quarter, and the result surprised the markets which created much volatility at the end of the quarter. Since the end of the quarter the uncertainty in the markets has remained as investors continue to review the new situation.

### **3. Financial Implications**

- 3.1 The long term investments and their performance are important to the Trust and the achievements of its outcomes and objectives.
- 3.2 It is recognised that the actual investment performance each year will be different to what is expected or required however over the long term this will be monitored and reviewed to ensure that the Trust's external investments work towards meeting its long term objectives.
- 3.3 It is not likely that the Trust can expect a positive investment return from its investments every year but having robust governance and monitoring in place mitigates the financial risks and enables the Trust to take action at appropriate times to address poor performance by the fund managers.

### **4. Recommendations**

- 4.1 Trustees are asked to note this report.

Reference: IA7  
Date: 24 August 2016

Report Number: CT1609041





## REPORT

To: Shetland Charitable Trust

Date: 15 September 2016

From: Chief Executive

Report No: CT1609042

### Small Grant Schemes - Approvals

#### 1. Background

- 1.1 On 17 December 2015 Trustees approved its disbursements for 2016-2017 (Minute Reference 91/15). A budget of £30,000 was approved for the Arts Grant Scheme and £15,000 for Senior Citizens Clubs.
- 1.2 It is a requirement that all approvals are reported to subsequent Trust Meetings.

#### 2. Arts Grant Scheme - £3,411

- 2.1 The following Arts Grants were approved by the Director of Development Services, in consultation with Shetland Arts, in the period 14 June 2016 – 1 September 2016 :-

Name of Individual/Organisation	Grant Approved (£)
Mr Michael Philip (obo Arran Philip)	981
Ms Jane Matthews (obo Martha Brown)	60
Mrs Poppy Nield (obo Arwen Nield)	60
Mrs Joanne Jamieson (obo Erin Jamieson)	60
Shetland Country Music Club	2,250

#### 3. Senior Citizens Clubs - £8,145

- 3.1 The following Senior Citizens Club grants were approved by the Director of Community Health & Social Care, in the period to 14 June 2016 – 1 September 2016: -

<b>Name of Organisation</b>	<b>Grant Approved (£)</b>
Yell Senior Leisure Club	1,314
Whitnesh and Weisdale Good Companions	400
Islesburgh Sixty Plus Group	1,224
Gulberwick Senior Citizens Club	150
Northmavine Happy House Club	540
Sandsting and Aithsting Overt 65s	1,317
Whalsay Senior Leisure Club	1,700
Unst Senior Leisure Club	1,500

#### **4. Recommendation**

- 4.1 Trustees are asked to note the approvals listed in paragraph 2.1 and 3.1 above.

Ref: DA1  
Date: 1 September 2016

Report No: CT1609042