

**Chief Executive: Dr Ann Black**

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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:

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

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**

1. Welcome and Introduction.
2. Apologies.
3. Confirm minutes of meeting held on 10 September 2015.
4. Trustees Report and Financial Statements to 31 March 2016.
5. AGM 2017: Date to be confirmed.





## MINUTES

**Shetland Charitable Trust Annual General Meeting  
Room 12, Islesburgh Community Centre, Lerwick  
Thursday 10 September 2015 at 11.30am**

**Present:**

A Cooper	A Duncan
R Henderson	B Hunter
K Massey	A Manson
T Macintyre	I Napier
D Ratter	J Smith

**Apologies:**

M Bell	P Malcolmson
A Westlake	J Wills

**In Attendance (Officers):**

A Black, Chief Executive - SCT  
E Mainland, Administration Manager – SCT  
L Geddes, Committee Officer - SIC

**Chair:**

Mr Hunter, Chair of the Trust, presided.

**Welcome and Introductions**

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

**Confirm Minutes of Meeting held on 11 September 2014**

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

**Trustees Report and Financial Statements to 31 March 2015**

Trustees approved the annual report and financial statements for the year to 31 March 2015 on the motion of Mr Smith, seconded by Mr Ratter.

**AGM 2015: Date to be confirmed**

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

The Trust AGM concluded at 11.35am.

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CHAIR



**Shetland Charitable Trust**

Trustees' report and consolidated  
financial statements

Charity number SC027025

31 March 2016

## Contents

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

## **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*

<b>Name</b>	Shetland Charitable Trust		
<b>Scottish Charity Number</b>	SC027025		
<b>Address</b>	22-24 North Road, Lerwick, Shetland, ZE1 0NQ		
<b>Selected</b>	<i>Appointed by Shetland Islands Council</i>		
R W Hunter, Chair	J W G Wills, Vice Chair		
A B Cooper	M J Bell		
T Macintyre (appointed 29 May 2015)	A G L Duncan		
P Malcolmson	R S Henderson		
K I Massey	A I Manson		
T M Morton (resigned 8 July 2015)	W A Ratter		
I R Napier	A J Westlake		
J L B Smith			
<b>Chief Executive</b>	Dr Ann Black		
<b>Bankers</b>	Bank of Scotland 117 Commercial Street Lerwick ZE1 0DL		
<b>Auditor</b>	KPMG LLP 191 West George Street Glasgow G2 2LJ		
<b>Solicitors - Governance and Charity Law</b>	Turcan Connell Princes Exchange 1 Earl Grey Street Edinburgh EH3 9EE	<b>Commercial</b>	Maclay Murray & Spens LLP Quartermile One 15 Lauriston Place Edinburgh EH3 9EP
<b>Investment Managers</b>	Insight Investment Management (Global) Limited 160 Queen Victoria Street, London, EC4V 4LA  BlackRock Global Investors Limited Drapers Gardens 12 Throgmorton Avenue London EC2N 2DL  Schroders Property Managers 31 Gresham Street London EC2V 7QA		



## 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.

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*

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

## 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	-	4,304	4,675
Other trading activities (Gift Aid receipts from subsidiary undertakings)	6	2,581	-	2,581	2,482
Rental income		956	-	956	1,047
Other income		2	-	2	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)	-	(520)	(497)
Provision made against equity investment	6	(133)	-	(133)	(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)	(4,555)	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	-	435	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	240,362	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>12,001</u>	
<b>Total current assets</b>		<u>11,126</u>		<u>12,001</u>	
<b>Creditors:</b> amounts falling due within one year	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					
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

	<i>Note</i>	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	
<b>Total current assets</b>		<u>6,860</u>		<u>6,720</u>	
<b>Creditors:</b> amounts falling due within one year	10	<u>(521)</u>		<u>(458)</u>	
<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		<u>(1,279)</u>		<u>(1,625)</u>
<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)
<b>Total unrestricted income funds</b>	13		<u>(12,009)</u>		<u>(10,224)</u>
<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		(3,630)	(3,791)
<i>Adjustments for:</i>			
Loss on sale of fixed assets		258	1,254
Investment income and interest receivable		(4,304)	(4,675)
Depreciation and impairment of tangible fixed assets	4	2,009	2,003
Revaluation of investment properties	4	(281)	(16)
Movement in pension liability, excluding actuarial gains and losses	13	89	80
Realised (losses)/gains on managed fund investments	5	6,358	(458)
(Losses)/gains on investment assets		(4,555)	20,214
Provisions made on equity investments	6	127	247
Movement in agricultural loans	7	50	68
Decrease in stock		10	21
Decrease in debtors	8	1,742	(951)
Increase in creditors	10	134	50
Decrease in provisions	11	(57)	(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	(12,237)	(231,987)
Purchase of tangible fixed assets	4	(99)	(280)
Purchase of shares within joint venture	6	(2,250)	(225)
Sale of managed funds investments	5	11,529	212,531
Net movement in cash flows attributable to managed fund investments	5	1,680	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		4,304	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:

	2016 £000	2015 £000
<b>General funds</b>		
Payments to charitable organisations	4,983	4,994
Schemes	2,547	2,634
Direct schemes	1,244	1,873
Charitable grants repaid	(28)	(76)
	<hr/>	<hr/>
Total charitable grants	8,746	9,425
Support costs, including governance costs (below)	575	472
Pension adjustments	89	80
	<hr/>	<hr/>
Total charitable expenditure – general funds	9,410	9,977
	<hr/>	<hr/>
<b>Expendable endowment</b>		
Depreciation – see note 4	1,217	1,216
	<hr/>	<hr/>
<b>Total resources expended on charitable activities</b>	<b>10,627</b>	<b>11,193</b>
	<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)

	Group and charity	
	Total 2016 £'000	Total 2015 £'000
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
<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:

	2016 £000	2015 £000
Wages and salaries	413	399
Social security costs	33	31
Pension costs	65	67
	<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>						
<b>At 31 March 2016</b>	<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	<b>198,463</b>	<b>165,632</b>	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)

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

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:

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

**6 Programme-related investments**

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



**Notes** *(continued)*

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

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

## 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)
Total net assets	<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
Total reserves	<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

	2016 £000	2015 £000
Group and charity		
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.

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

Movements in present value of defined benefit obligation:

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

Movements in fair value of plan assets:

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

**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)
	<hr/>	<hr/>
Total	<b>(160)</b>	<b>(182)</b>
	<hr/> <hr/>	<hr/> <hr/>

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)
	<hr/>	<hr/>

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
	<hr/>	<hr/>
	<b>435</b>	<b>285</b>
	<hr/> <hr/>	<hr/> <hr/>

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
	<hr/>	<hr/>
	<b>2,868</b>	<b>2,867</b>
	<hr/> <hr/>	<hr/> <hr/>
Actual return on plan assets	<b>41</b>	<b>202</b>
	<hr/> <hr/>	<hr/> <hr/>

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



## Notes (continued)

### 17 Pension scheme (continued)

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

	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.

